



The fire within



GODFREY PHILLIPS

Annual Report 2004-05

The flame of the passion to outshine, outperform and outdo is what makes Godfrey Phillips - a high energy, fast moving and decisive organization. Over a period of time the burning desire to excel has got only stronger and has helped us execute, deliver and set aggressive goals for ourselves to meet every business challenge. After all, it is the fire in the belly which sets winners a cut above the rest!



STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH



President's Message

D e a r S h a r e h o l d e r ,

I am happy to report that 2004-05 was a great year for your Company. Your Company posted a robust sales growth of 10%, up from Rs. 1,177 crores in 2003-04 to Rs. 1,295 crores in 2004-05. This resulted in an impressive pre-tax profit of Rs. 99.9 crores. The Board of Directors of the Company are happy to recommend a higher dividend of Rs. 22 per equity share of Rs. 10 each for the year 2004-05.

Our success philosophy is to “Explore, Innovate and Evolve”. Continuous improvement in our processes, products, services and management practices has enabled us to build consumer confidence and garner market growth. Our efforts in providing a holistic brand experience has helped reinforce consumer loyalty. It is this trust reposed in your Company by consumers that has today made us one of the most reputed professionally managed companies in the industry.

In order to strengthen our competitive capabilities in a globalised market, your Company undertook the implementation of Six Sigma processes to re-engineer business operations. Add to this our state-of-the-art R&D facility in Mumbai and a world-class primary plant in Guldhar: all testimony to our ongoing efforts to delight our consumers with innovative products and services at a competitive price. With initiatives like these, your Company is ready to take on the rapidly burgeoning market and an ever-evolving consumer. We are sure our passion for winning will continue to yield good returns to the shareholders for years to come.

K . K . M o d i

Performance and goals

In the pursuit of excellence Godfrey Phillips has recognised that in today's age of improved communication and transportation and falling trade barriers, the world is rapidly becoming a smaller place. Its association with major international companies has helped in providing the right understanding of the working of different cultures across India and the globe. Armed with this knowledge of 'glocalisation', Godfrey Phillips has set itself on the path to outreach, outperform and set new benchmarks for the tobacco industry.



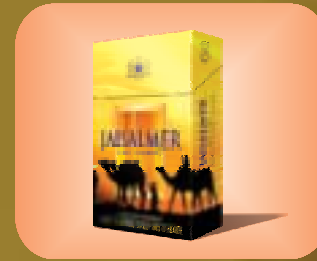
Highlights

- Godfrey Phillips, is the market leader in North and West India, with a 36% market share that has grown 10% in sales and 30% in profits over the previous year.
- Four Square became the 16th most powerful brand in the country, whereas Red & White and Cavanders also feature in the top 50 FMCG list (Economic Times, April 21, 2004).
- A 35% increase in total tobacco exports registered over last year.
- The cigar business has grown three-fold capturing almost 50% of the overall market share. Our premium hand-rolled cigar portfolio has captured 20% of the market in its very first year.
- A renewed focus on our tea business yielded notable results with an impressive volume growth of 30% over last year.

A lit cigar is positioned diagonally across the frame, with a wisp of white smoke rising from its tip. The background is a solid, vibrant green. In the bottom left corner, a portion of a smooth, yellow sphere is visible. The text "The passion to outreach and outperform" is centered in the upper half of the image.

The passion to outreach and outperform

Identifying potential and opportunities



Highlights

- Four Square with a new visage was an instant hit with its customers. The new graphics developed overseas provided the consumer with a stylish and classy cigarette pack.
- We launched Cavanders Premium, offering a unique and innovative cigarette design for the first time in the non-filter category to provide the smoker greater satisfaction and style.
- Jaisalmer entered new markets in the country with a new limited edition pack design especially developed overseas. It also made a successful foray into the Duty Free channels at international airports and became the largest selling domestic brand by appealing to foreign travellers who wanted to carry back a token of their journey to India.
- We gave our popular Rs. 200 crore cigarette brand Red & White an image makeover with a sleek new pack and a tear tape.
- We were the first to mass market cigars in India, imported from USA, such as Phillies, Hav-a-Tampa and Don Diego.
- We repositioned two key tea brands Super Cup and Rangoli to create a vibrant and progressive portfolio of growth drivers.

In today's competitive global environment the only way to stay ahead is to be the first with the best. After all, the consumer isn't what he used to be. His needs and aspirations are changing. He is continuously evolving. He demands products that complement his lifestyle. Naturally, such an environment demands excellence and innovation. The challenge that faces us is to be able to cater to changing needs and expectations. It's a challenge which is making us look beyond the immediate horizons.

The passion to look beyond



There can be no smoke without fire



Strengthening and improving our systems and processes



“Explore, Innovate and Evolve” - is the mantra that pushes us to do things better than we did yesterday. In order to become a leading player in the tobacco industry we have constantly been upgrading and improving our systems and processes through better R&D, upgraded manufacturing facilities and a better understanding of consumer and market needs.

Highlights

- Our R&D has been certified with ISO 17025 by the National Accreditation Board for Testing and Calibration Laboratories (Department of Science & Technology, Govt. of India). Ours is the first laboratory in the Indian tobacco industry to be accredited with this certification.
- We are the first amongst manufacturers and exporters to have been accredited with ISO 9001:2000 by TUV Certification body.
- We set up a state-of-the-art R&D unit in Mumbai and a world class Primary Manufacturing facility at the Guldhar factory to take on the highly competitive global environment.
- Our tobacco traceability programme traces packed tobacco from 'Seed to Marketing' and ensures strict quality control. This enables us to meet even the stringent quality requirements of the discerning international customer.
- Our tobacco reaches some of the biggest names in the global industry such as Philip Morris, Altadis, JTI, Tabak Natie, Gallahers Eastern Co., European Tobacco, Swedish Match and Trailfracht etc.
- Our company received 2nd Best Manufacturer's Award and the 3rd Best Exporter (Manufacturing category) Award for 2003-04 by the Tobacco Board.

Nurturing and preparing participants



Attracting, nurturing and retaining the right talent has assumed tremendous importance in the globalised domestic market. Deploying human assets in an optimal manner has become a winning strategy in our business. In our effort to create an environment that breeds excellence, we have put in place HR practices which have become a referral point for the corporate sector. These people-oriented practices have helped Godfrey Phillips become an organization capable of responding fast to changing market requirements.

Highlights

- We launched HRIS Phase II (a sophisticated HR tool) to provide online information to people across the organisation. Additionally, it supports various people-related process flows such as training, performance management, etc.
- Our Leadership Development Program is another new initiative towards building and managing exceptional talent in the organization.
- Our company launched the Six-Sigma initiative called Project LAKSHYA. This will help enhance operational efficiency, foster innovation, new product development and implement effective marketing and distribution programs.
- The Best Employer Survey which is held annually by Hewitt Associates revealed that Godfrey Phillips falls in the performance zone which represent the top 20% of the organizations in the research.

Sparking talent



A close-up photograph of a fountain pen with a black barrel and a gold-colored nib. The pen is positioned diagonally across the frame. A vibrant blue ink trail curves upwards from the nib, creating a sense of motion. The background is a dark, textured surface, possibly a piece of paper or a book cover. The lighting is dramatic, highlighting the metallic sheen of the nib and the smooth texture of the pen's barrel.

Igniting passion

Socially responsible corporate citizen



It is the responsibility of the corporate world to realize the dreams of the world's less privileged so that they can share the fruits of development. Which is why Godfrey Phillips considers the business of life as important as the one reflected in its balance books.

The company, through its myriad social initiatives, enriches the community from which it makes its livelihood.

Highlights

- Instituted in the year 1990, the Godfrey Phillips Bravery Movement started as the Red & White Bravery Awards. Now in its 13th year, the Awards have felicitated over 800 people across 16 states for their acts of selfless courage.
- We launched a responsible smoker's programme - WHITE (We Honour the Importance of Tobacco Etiquettes) to foster amicable mutual co-existence of smokers and non-smokers alike. Under the aegis of the programme we launched Mobile Smoking Lounges and Smoking Lounges at the Airports.
- We actively participate in social campaigns like AIDS prevention, scholarships for children of war widows, sweet-water distribution in drought-ridden areas, rehabilitation of natural disaster victims and blood donation camps.
- Our Farmer Programme provides the right knowledge and technical support to the farmers; this collaborative approach has helped farmers achieve higher yields and returns.
- The company and the employees contributed generously to the Tsunami relief activities. Special teams were sent to affected areas, which have since then carried out extensive rehabilitation work by re-instituting the lives of the affected by way of providing fishing boats, housing and financial contributions.



Chairman's Message

Dear Shareholder,

In 2004 your Company registered record growth of 10%, from Rs. 1,177 crore in the year 2003-04 to Rs. 1,295 crore in the year 2004-2005. This is particularly commendable against the backdrop of severe restrictions imposed on the cigarette industry with respect to advertising, sale and consumption of tobacco products. The situation was further blighted with the introduction and implementation of the 'Cigarettes and other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003' (COTPA), with effect from 1st May 2004, as well as the hike on excise duty rates by as much as 10% for cigarettes and most other tobacco products.

As a result of ever increasing taxation on cigarettes, the demand has shifted to other forms of tobacco consumption. Today cigarettes stand at a low 14% of total tobacco consumption, giving way to cheaper alternatives. The shift in tobacco consumption has forced the farmers to switch to producing cheaper quality tobacco, which provide lesser returns and also have no export potential.

In India's agrarian economy where tobacco is one of the most important cash crops, providing a livelihood to 36 million people, it is imperative that farmer focused programmes and equitable taxation policies are implemented.

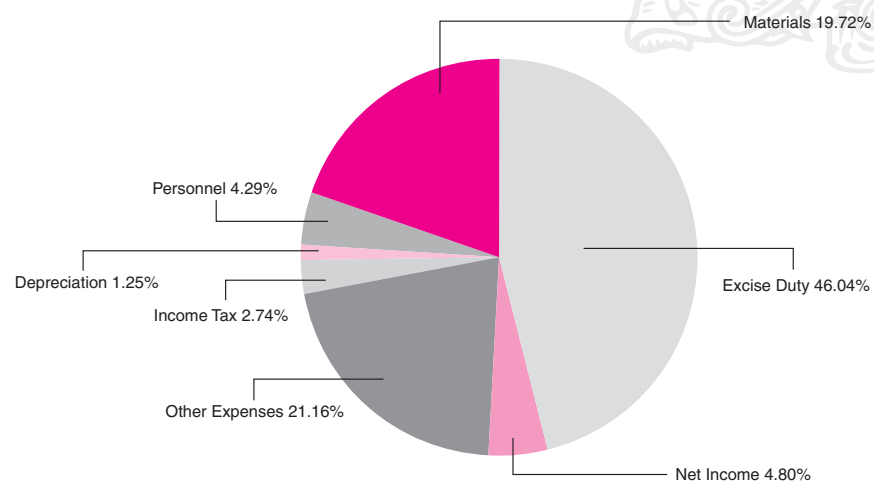
With higher consumption of superior quality tobacco, R&D investment will also get a much needed boost, which in turn will help bolster farmer income and even employment.

I am hopeful that with a variety of pre-emptive measures and innovations, your Company should continue to excel in the future.

R . A . S h a h

GODFREY PHILLIPS INDIA LIMITED

Revenue Distribution



Financial Highlights

Rupees in lacs

	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97	1995-96
CAPITAL EMPLOYED										
Net Fixed Assets	12920	8732	7413	7037	6987	6384	5155	2695	2342	2021
Investments	19916	14473	15636	12873	8080	7722	3968	3647	2781	2628
Working Capital	4513	6575	5429	8510	12041	8619	13069	10449	8985	9202
Deferred Tax Assets (net)	1576	1239	797	-	-	-	-	-	-	-
Total	38925	31019	29275	28420	27108	22725	22192	16791	14108	13851
FINANCED BY										
Shareholders Funds	32701	28950	25966	24170	21597	18775	16239	13021	10280	8805
Borrowings	6224	2069	3309	4029	5511	3950	5953	3770	3828	5046
Deferred Tax Liabilities (net)	-	-	-	221	-	-	-	-	-	-
Total	38925	31019	29275	28420	27108	22725	22192	16791	14108	13851
OPERATING PERFORMANCE										
Gross Revenue	132538	120219	109639	96002	100439	109408	106249	102355	88568	79768
Excise Duty	61021	55769	52085	47049	44375	57193	55639	55996	47951	45633
Depreciation	1655	995	913	811	769	551	447	211	204	190
Profit Before Taxation	9995	7649	5690	7184	7237	6386	6808	5935	4500	3601
Profit After Taxation	6360	5218	3791	4780	4656	4210	4603	3885	2276	2012
Dividend	2288	1976	1768	1924	1664	1508	1248	1040	728	624
Corporate Dividend Tax	321	258	227	-	170	166	137	104	73	-
Retained Earnings	3751	2984	1796	2856	2822	2536	3218	2741	1475	1388
INVESTORS' DATA										
Earning Per Equity Share (Rs.)	61.16	50.18	36.45	45.96	44.77	40.48	44.27	37.36	21.89	19.35
Dividend Per Equity Share (Rs.)	22.00	19.00	17.00	18.50	16.00	14.50	12.00	10.00	7.00	6.00
@ Book Value Per Equity Share (Rs.)	312.20	276.12	247.43	230.15	205.42	178.27	153.89	122.94	96.58	82.39
Number of Shareholders	11719	12539	13068	13198	13797	14004	15557	16994	17977	18427

@ Excluding Revaluation Reserve

GODFREY PHILLIPS INDIA LIMITED

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors have pleasure in submitting their Annual Report and Accounts of the Company for the year ended March 31, 2005.

GENERAL ECONOMIC ENVIRONMENT

India's economic growth continues to be impressive and one of the highest amongst the developing world. During the year 2004-05 India's GDP grew by 6.9% marginally higher than the budgeted estimate of 6.2%, inspite of Tsunami, deficit monsoon and volatile oil prices. The confidence level in the Indian economy is high and that is also reflected in the stock market indices.

The manufacturing sector in 2004-05 registered a robust growth of 9.2% as against 6.9% in the previous year and it continues to grow at an impressive rate during the current year. The service sector, primarily supported by IT has also been registering a spectacular growth and today both manufacturing and service sectors account for more than 73% of the total GDP of the country. The current year is also witnessing a smart upturn in the FMCG sector which suffered an unprecedented decline in the previous two years. This is a welcome indicator.

The low growth in agriculture continues to be a matter of concern. The erratic monsoons, lack of technological inputs and other much needed reforms are some of the factors responsible for this situation. There is an immediate need for introducing drastic reforms, making major investment in technology, consolidation and building infrastructure in the rural sector. If something is not done immediately, India may find herself non-competitive with other countries in the neighborhood in the now free WTO regime. Needless to say that bulk of our population continues to remain dependent on agriculture. We may not be able to meet our dream of taking the benefits of economic reforms to the poor and the rural people until we are able to make our agricultural produce much more competitive, both in cost and quality to help farmers improve their earnings through productivity gains.

TOBACCO/CIGARETTE INDUSTRY IN INDIA

India is the third largest grower of tobacco in the world. It was heartening to see that the production of FCV tobacco used in cigarettes account for 90% of the country's tobacco export, was at an all time high of 255 million kgs. The farm prices were also attractive. The farmers in Karnataka realized 15% higher yields than the previous year. India's export of tobacco was also at a record level of 163 million kgs. against 151 million kgs. in the previous year. It may, however, be noted that the recent political turmoil in Zimbabwe and consequent sharp decline in the tobacco supply from there has also helped India improve its export performance. The greatest beneficiary of the shortfall in supply from Zimbabwe has, however, been Brazil who has made major investments over the last few years and has built a high quality base in growing the FCV tobaccos. The gradual withdrawal of agriculture subsidies on tobacco in the European Union starting from next year offers an added opportunity to India for becoming a major exporter of tobacco and tobacco products in the world. Today our exports are less than 1/3rd of Brazil. It is high time that the Government should start encouraging cultivation of the kind and variety of tobaccos that the rest of the world needs rather than one that is used domestically for producing bidis and chewing tobacco, peculiar to India. While the Government's efforts in containing the consumption of tobacco in all categories is appreciable, yet it is important to have a proper appreciation of this sector that provides livelihood to as many as 36 million people of which 70% are engaged in agriculture. Returns to the farmers on producing cigarette usable types of tobaccos are known to be much higher than others. The Government should provide a platform for helping consumers to gradually upgrade their consumption from traditional low quality tobacco products to globally acceptable varieties like cigarettes. This will help not only the farmers and consumers but also help the country in realizing much higher revenues as well as export earnings.

The last few years have seen a modest growth in the volume of domestic cigarettes as a result of some stability in the rate of excise taxes. During the year under review the cigarette industry started looking up after many years of stagnation. The industry achieved a growth of about 7.5% with significant gains in the filter and micro segments. The growth in the regular filter segment also benefited your Company as this segment constitutes nearly 61% of the Company's total sales. In the current year i.e. 2005-06, however, the Finance Minister has again raised the excise tax steeply by 10%. Thanks to some relief in the total tax burden that has come to the industry at the same time, from the recent verdict of the Supreme Court by striking down the luxury tax being levied by number of states at varying rates. Consequently, most companies including yours, have been able to maintain the prices of their brands bought by masses by partly absorbing the increased excise burden. Your company and the industry will continue to persuade the Government to allow the cigarette industry to have its due share of the tobacco consumption and help contribute to the Indian economy at a much greater level than it is today.

The prohibitive and discriminatory taxation has been one of the greatest impediments to the users of other tobacco products to move up to using cigarettes. This kind of discrimination is again unique to India in the world market. As reported in the past, 85% of the total excise revenue collected by the Government from tobacco sector is taken from cigarette industry which accounts for only about 14% of the tobacco consumption. Not only that, as a matter of fact, the share of tobacco usage in cigarettes has fallen from 23% in 1971/72 to about 14% currently, even though the total tobacco consumption in the country has gone up. The anti-tobacco campaigns also primarily focus on cigarettes which by inference to the common man may mean that other products may be better than cigarettes. The recent report on tobacco control in India prepared by the Ministry of Health and Family Welfare (Government of India) has stated that "bidis,... deliver more toxic products to the smoker than other smoked tobacco products. Thus, the burden of tobacco – related diseases is higher in this group. Increased taxes on cigarettes since 1970s resulted in increased consumption of bidis". Therefore, it is high time for the Government to be pragmatic and practical and should introduce such policies which help and benefit all the stake holders including the Government, farmers and the consumers on a durable and sustainable basis.

SEGMENTWISE PERFORMANCE IN 2004-05

Cigarettes

During the year under report almost all the major brands of the Company performed reasonably well and higher sales were achieved compared to the previous year. The market share of the Company grew to 11.8%. Packaging of the Company's flagship brand 'Four Square' was upgraded in all its formats. 'Tipper' 59MM brand was extended to new markets during the year under report.

The productivity levels at both the manufacturing locations of the Company at Mumbai and Ghaziabad continued to be higher and continuously improving. Quality standards across all the franchises and their respective formats were also upgraded and their indexes compared with international specifications which are constantly monitored.

During the year under report a new modern state of the art primary processing facility was set up at the manufacturing facility of the Company's subsidiary, International Tobacco Company Limited at Ghaziabad. In addition, all the outdated packing machines are being replaced with latest generation packers at both the manufacturing plants at Mumbai and Ghaziabad.

The new pilot Research & Development plant set up at Andheri factory was operational during the year under report. It has latest measuring and monitoring laboratory equipments and pilot processing

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facility. It is a matter of great achievement that your Company has been accredited by the National Accreditation Board for Testing and Calibration Laboratories, Department of Science & Technology, India granting ISO/IEC 17025:1999 in respect of the Company's R & D laboratory at its factory at Andheri, Mumbai.

During the current year the Company has also test launched its new brand 'Force 10' in Nagpur and Ludhiana markets.

With the economy on a growth path and purchasing power of the people rising, the Company feels reasonably convinced that cigarette consumption should also improve provided the Government is pragmatic and stable in its approach towards cigarette industry which offers more modern and hygienic product in the form of cigarettes.

During the first quarter of the current financial year the cigarette sales volume were higher at 3117 million cigarettes as against 2853 million cigarettes sold during the corresponding quarter last year registering an increase of 9.3%. Accordingly the value of cigarette sales during the quarter were also higher by over 12% at Rs. 328.96 crore as against Rs. 293.48 crore in the corresponding quarter last year.

Tea

During the year under report the Company achieved a higher domestic sales turnover of 2889 tonnes valued at Rs. 39.61 crore compared to 2214 tonnes valued at Rs. 29.16 crore in the previous year registering an increase of 30% in terms of quantity and 36% in terms of value.

Lower crop of tea in India led to bullish trends in commodity price during the year under report. Retail Audit figures point to a 2% decline in the domestic branded packet tea market against 8% decline last year.

The Company's tea business, which was further restructured in the year 2004-05, has shown encouraging results. The business has achieved significant growth this year along with positive cash flows.

During the first quarter of the current year, the domestic tea business has achieved sales of Rs. 7.96 crore, a growth of 2%, over the corresponding period last year. First two months were affected due to introduction of VAT.

Exports

During the year, the aggregate FOB value of exports including tobacco, cigarettes and tea were higher at Rs. 72.53 crore as against Rs. 69.50 crore in the previous year. The cut tobacco exports increased significantly to Rs. 3.29 crore as against Rs. 36 lac only in the previous year. The following major initiatives were taken by the International Division to enhance exports of cigarettes and cut tobacco :

- (i) Prospecting diversified customer base for contract manufacturing brands.
- (ii) Introduced GPI brands of cigarettes in the Republic of Guinea and Sierra Leone.
- (iii) Appointed experienced agents in different countries.
- (iv) Marketing initiatives to popularize Godfrey Phillips India Limited brands.

The Company is targeting an exports growth of 30% of cigarettes and cut tobacco during the current year.

The export of un-manufactured tobacco for the financial year 2004-05 was 7099 MT valued at Rs. 51.75 crore as against 4940 MT valued at Rs. 38.41 crore in the previous year registering an increase of 44% in terms of quantity and 35% in terms of value. We are hopeful that the growth momentum will continue during the current year and the Company would be able to stretch its tobacco exports further to achieve a target of Rs. 58 crore during the financial year 2005-06.

Cigar

Introduction of Altadis USA's Machine Made and Hand Made Cigars, started in December 2002. During the year under review GPI has established leadership position with an enviable market share of over 50% in the cigar market.

We are the first company to introduce organized distribution of Cigars across various cities in India. During last two years we have built a trusting relationship with our channel partners and taken numerous initiatives to develop customers in the elite hotels and clubs across the country.

Live Cigar Rolling events were organized in Mumbai, Delhi, Hyderabad and Bangalore and Altadis USA arranged for a Master Torcedor Ms. Jessica Maria from La Romana who rolled Don Diego Anniversario Cigars for the aficionados. This was a very popular event and received wide appreciation and acclaim.

Our efforts have resulted in three fold volume growth of our famous brands namely Don Diego, Santa Damiana, Flor De Copan, Phillies and Hav-A-Tampa Jewels, compared to last year.

Our performance gives the confidence to realize our vision "To make Godfrey Phillips India the destination for Cigars in India."

FINANCIAL PERFORMANCE

FINANCIAL RESULTS	2004-2005 Rs. in lac	2003-2004 Rs. in lac
Gross Profit	11650.26	8643.43
Less : Depreciation	1655.28	994.82
Profit before taxation	9994.98	7648.61
Less : Provision for Taxation	3973.00	2872.57
- current		
- deferred tax credit	(337.87)	(441.56)
Profit after tax for the year	6359.85	5217.60
Profit Brought Forward	18713.00	16929.38
	25072.85	22146.98
Appropriations		
Proposed Dividend	2287.73	1975.77
Corporate Dividend Tax	320.85	258.21
Transfer to General Reserve	1400.00	1200.00
Surplus carried to Balance Sheet	21064.27	18713.00
	25072.85	22146.98

During the year under report the cigarettes sales volume rose to 12195 million cigarettes as against 11867 million cigarettes in the previous year, recording an increase of 3%. The overall sales turnover comprising of cigarettes, tobacco, cigar and tea was also higher at Rs. 1296 crore as against Rs. 1177 crore in the previous year, registering an increase of 10%. After providing for the taxation, the net profit of the Company was higher at Rs. 63.60 crore as against Rs. 52.18 crore in the previous year.

GODFREY PHILLIPS INDIA LIMITED

DIVIDEND

Keeping in view the Company's excellent performance for the year under report the Board of Directors of the Company are pleased to recommend a higher dividend of Rs. 22 per share as against Rs. 19 per share paid for the previous year.

ASSAM DUES

As stated in earlier years, the Company entered into contracts in March 2000 with some manufacturing units in Assam for purchase of certain quantities of cigarettes at economical prices, on account of these units enjoying exemption from payment of excise duty in pursuance of an exemption notification issued by the Central Government earlier. The Government withdrew the said exemption in January 2001 and, thereupon the said units closed down their operations. However, by Finance Act, 2003, Union of India brought in a provision to retrospectively deny the benefit of the said exemption notification for cigarettes and other tobacco products. Hence the refunds earlier granted became repayable and this amendment was challenged by the Assam Units before the Guwahati High Court. The Guwahati High Court was pleased to admit the writ petitions filed by the said units and ordered status-quo (i.e. neither excise duty amounts withheld by the Government to be refunded nor any repayment to be made of the refunds already granted to the Units). In the meantime Union of India challenged an earlier order of the Guwahati High Court dated April 4, 2003 upholding the right of the Assam Units to receive refund of excise duty, by way of Special Leave Petition (SLP) before the Supreme Court, inter alia, on the ground of the retrospective legislation. To avoid multiplicity of proceedings the Hon'ble Supreme Court directed transfer of all pending writ petitions (challenging the vires of retrospective legislation) at Guwahati High Court to itself. In accordance with the directions of the Hon'ble Supreme Court of India the writ petitions have been transferred and will be heard by the Hon'ble Supreme Court of India along with the Union Of India's pending Special Leave Petition. The case was heard by the Division Bench of Supreme Court of India wherein the judgement was reserved, which is now expected sometime in the month of September 2005.

Based on the legal opinion received from eminent counsels, your Directors feel confident that the benefit of the Notification cannot be legally denied consequent upon amendment thereto by the Finance Act, 2003. However, as a measure of precaution a provision for doubtful debts for the sum aggregating to Rs. 22.70 crore recoverable from the said units had already been made in the accounts for the year ended March 31, 2003.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business which ensures that transactions are recorded, authorised and reported correctly apart from safeguarding its assets against loss from wastage, unauthorised use and disposition.

The internal control system is supplemented by well documented policies, guidelines and procedures, an extensive programme of internal audit by a firm of chartered accountants and management reviews.

HUMAN RESOURCE DEVELOPMENT

The Company recognizes the fact that to grow and compete in an extremely fierce competitive environment it needs to retain and grow the best talent in the industry. A number of steps were taken during the year to further strengthen the HR processes within the Company. We deployed state of the art process to identify and grow talent from within the Company with great success.

Six Sigma has been launched with full vigour and alignment with the strategic objectives of the Company.

During the current year a leadership development programme is being planned as a step towards building, growing and managing talent in the Company.

There were 1386 employees employed with the Company as on June 30, 2005 (including 452 employed in International Tobacco Company Limited, a wholly owned subsidiary of the Company).

CORPORATE DEVELOPMENT AND INFORMATION TECHNOLOGY

Some of the important initiatives taken by the Corporate Development and Information Technology Department during the year are summarized below:

1. With the objective of gaining business growth with a lower cost structure the distribution network of cigarette and tea was merged. This decision has showed favourable results and it is under implementation all over the market.
2. A comprehensive industry analysis of the domestic cigarette business was completed to facilitate systematic planning by all functions across the Company.
3. Various offices of the Company have been linked using wide area networking.
4. Access to up-to-date information on sales to the managers has been ensured. The system is flexible which facilitates quick changes in the distribution network to meet changing market needs.
5. In order to safeguard the Company's information technology systems against virus as well as security hazards steps have been taken to put in place security policies and changes are updated quickly to secure continuity, efficiency and safety of Company's data and systems.

P1+RATING

The Company continues to enjoy the top rating of P1+ for an amount of Rs. 35 crore from the Credit Rating Information Services of India Limited (CRISIL) in respect of its short term borrowing programme including issue of Commercial Paper. It has, however, not been borrowing under this rating barring raising funds in foreign currency through PCFC loans occasionally.

CONSERVATION OF ENERGY

During the year under report, the measures initiated/implemented by the Company for conservation of energy included the following main items :

1. Taylor made motor for WV-100 vacuum pump saved 75 units per day.
2. V-belt replacement with flat belt in cigarette packing department (CPD) air handling unit (AHU) saved 93 units per month.
3. Stoppage of AHU in cigarette manufacturing department (CMD) during rainy season, saved 10000 units.
4. Stoppage of exhaust fan when compressor not booked resulted in saving of 7.5 units/day.
5. Energy saving transformer for secondary floor, helped in saving 3 units/day.

Impact :

These measures resulted in saving in electricity consumption of about Rs. 2 lac during the year.

TECHNOLOGICAL ABSORPTION, ADOPTION AND INNOVATION

The measures initiated/implemented during the year under report are :

1. In-house overhauling of stem cutter.
2. Dry stem Tipper installed.

GODFREY PHILLIPS INDIA LIMITED

3. Lamina 200 Kg. corrugated fibre container (CFC) decasing installed.
4. Primary manufacturing department (PMD) alarm communication system stabilized.
5. Introduction of bevel edge HLP Pack.
6. Introduction of stamper for export.
7. Over wrapper for king size filter (KSFT) 10's carton.
8. Link up on KSF 20's to ME-630.
9. Compact pack for KSF 10's.
10. Modified filter assembler clutch for M8+FAIII.
11. Introduction of servo motor for 4 packet collator and bundling machine paper drive.
12. Pressure gumming system on AG bundler.
13. Downstream machine link up unit development for GDX2S + C600.
14. Utility supervisor control and data acquisition (SCADA) commissioning.
15. Servo motor for GD-3.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings in foreign exchange during the year under report by way of exports and other income amounted to Rs. 73.87 crore (previous year Rs. 72.36 crore) as against the foreign exchange outgo on imports, dividends and other expenditure aggregating to Rs. 60.56 crore (previous year Rs. 46.14 crore).

TREASURY OPERATIONS

The Company continues to deploy its surplus liquidity primarily in debt oriented schemes of different reputed mutual funds. Such investments are made based on the twin objective of capital preservation and optimization of returns. A part of the temporary surplus funds are also invested in liquid/short term schemes of mutual funds so as to use the same for monthly payment of excise duty in due course.

To meet a part of the Company's capital expenditure on modernization and upgradation of its manufacturing facilities a foreign currency loan of USD 10 Million was raised from BNP Paribas, Singapore carrying interest @ USD 6 months libor plus 120 basis point. Although libor has considerably increased, US Dollar has depreciated against Rupee thereby offsetting the effect of increased libor to a large extent.

The Company keeps a close watch on the developments in forex market and obtains forward covers in respect of its receivables as and when deemed necessary. Currently it is also considering actively to enter into a hedging transaction to safeguard its interest against any further increase in libor rate.

FIXED DEPOSITS

At the end of the financial year, the balance on account of Fixed Deposits accepted from the Public and Members stood at Rs. 1,81,19,000 which included 51 deposits totaling Rs. 9,82,000 not claimed on due dates. Out of these, 25 deposits for an aggregate amount of Rs. 6,50,000 have since been repaid and the amount of a deposit of Rs. 3,000 was transferred to the credit of Investor Education and Protection Fund leaving a balance of Rs. 3,29,000 comprising of 25 deposits for completion of formalities.

Presently the Company is neither accepting fresh deposits nor renewing the existing ones as it is no longer economical for the Company to raise moneys through this mode of finance.

DIRECTORS

Mr. R.A. Shah, Mr. Lalit Kumar Modi and Mr. Samir Kumar Modi, Directors, will retire by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibilities Statement, it is hereby confirmed :

- (i) that in the preparation of the Annual Accounts for the financial year ended March 31, 2005, the applicable Accounting Standards had been followed;
- (ii) that the directors had selected such Accounting Policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the accounts for the financial year ended March 31, 2005 on a 'going concern' basis.

CORPORATE GOVERNANCE

The Company is committed to maximise the value of its stakeholders by adopting the principles of good Corporate Governance in line with the provisions of law and in particular those stipulated in the Listing Agreement with the stock exchanges. It encourages wide participation from all stakeholders. Its objective and that of its management and employees is to manufacture and market the Company's products in a way so as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy in general. Constant innovation in its operations across all the locations of the Company is an ongoing effort so as to obtain higher efficiencies.

A certificate from the auditors of your company regarding compliance of the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement with stock exchanges, is enclosed.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, Group Accounts form part of this Report & Accounts. These Group accounts have been prepared on the basis of audited financial statements received from the Subsidiary Companies and an Associate Company, as approved by their respective Boards.

AUDITORS

A.F. Ferguson & Co., Chartered Accountants, the retiring Auditors, have offered themselves for re-appointment as Auditors for the Head Office as well as branch offices at Ahmedabad, Mumbai, Kolkata, Ghaziabad, Guntur, Hyderabad, New Delhi and Chandigarh.

SUBSIDIARY COMPANIES

The Reports and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including subsidiaries, at the first instance, members are being provided with the Report and Accounts of the Company treating these as abridged

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost in connection with printing and mailing of the Report and Accounts.

GENERAL

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

EMPLOYEES

The relations with the employees of the Company continue to be cordial and the Directors wish to record their appreciation of their dedicated services at all levels of operations in the Company.

CONCLUSION

Your directors look forward to the future with confidence and optimism.

**Respectfully submitted
on behalf of the Board**

**Bangalore
Dated : July 31, 2005**

**R.A. SHAH
CHAIRMAN**

GODFREY PHILLIPS INDIA LIMITED

BOARD OF DIRECTORS

- R.A. Shah - Chairman
- K.K. Modi - President
- L. K. Modi - Executive Director
- Samir Kumar Modi - Executive Director
- Lalit Bhasin
- Anup N. Kothari
- C.M. Maniar
- O.P. Vaish
- S.V. Shanbhag - Whole-time Director

COMPANY SECRETARY

R. Joshi

AUDITORS

A.F. Ferguson & Co.

INTERNAL AUDITORS

Lodha & Co.

SOLICITORS

Crawford Bayley & Co.

BANKERS

- State Bank of India
- Bank of Baroda
- Bank of India
- Citibank N. A.
- State Bank of Hyderabad
- State Bank of Travancore
- The Hongkong and Shanghai Banking Corporation
- Union Bank of India

REGISTRARS AND TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd.
Satam Estate, 3rd Floor,
(above Bank of Baroda),
Cardinal Gracious Road,
Chakala, Andheri(E),
Mumbai - 400099.

CORPORATE OFFICE

Four Square House,
49, Community Centre, Friends Colony,
New Delhi - 110065

OTHER OFFICES

Ahmedabad, Chandigarh, Ghaziabad,
Hyderabad, Kolkata, Mumbai, New Delhi

LEAF DIVISION

Guntur (Andhra Pradesh)

REGISTERED OFFICE

Chakala, Andheri(E), Mumbai - 400099

GODFREY PHILLIPS INDIA LIMITED

Report on Corporate Governance for the year ended March 31, 2005

The Directors present the Company's Report on Corporate Governance.

1. THE COMPANY'S GOVERNANCE PHILOSOPHY

GPI's Corporate Governance initiatives are devised for achieving basic objective of wealth creation for the benefit of all its stakeholders namely the shareholders, employees, business associates and the society at large. The Company believes in giving its executives ample freedom to operate and secure the Company's target by putting in best of their efforts.

The Board of Directors is primarily responsible for protecting and enhancing shareholders' values besides fulfilling the Company's obligations towards other stakeholders. The role of the Board of Directors is to provide strategic superintendence over the Company's management. The day to day management of the Company is vested in the managerial personnel and sufficient authority is delegated at different operating levels. Delegation of authority in the operating people helps generation of creativity and innovation. This also helps in harnessing potential of employees to the best advantage of the Company.

2. BOARD OF DIRECTORS

i) Composition

The Board of Directors of the Company consists of executive and non-executive directors and more than half of the Board comprises of non-executive directors. The non-executive directors are independent professionals drawn from amongst persons with experience in business /law/finance. At present the total strength of the Board of Directors is nine out of which five are non-executive Directors. The Chairman of the Board is a non-executive director and the minimum requirement of one-third of the Board consisting of independent directors is duly complied with.

ii) Attendance at the Board Meetings and the last Annual General Meeting, directorships and memberships/chairmanships of Board Committees of other Companies

Director	Executive/ Non-Executive Independent	No. of Board Meetings attended	Attendance at last AGM	Membership/ chairmanship of Board of other Companies* as at March 31, 2005	Membership/ chairmanship of other Board Committees# as at March 31, 2005
Mr. R.A. Shah	Non-Executive & Independent	8	Yes	14 (includes 2 as Chairman and 1 as Vice-chairman)	9 (includes 4 as Chairman)
Mr. K.K. Modi	Executive	7	Yes	11	3 (includes 1 as Chairman)
Mr. S.V. Shanbhag	Executive	8	Yes	4	None
Mr. Lalit Bhasin	Non-Executive & Independent	3	Yes	6	7 (includes 3 as Chairman)
Mr. Anup N. Kothari	Non-Executive & Independent	8	Yes	2	None
Mr. Lalit Kumar Modi	Executive	6	Yes	9	1 (as Chairman)
Mr. C.M. Maniar	Non-Executive & Independent	8	Yes	10	8 (includes 1 as Chairman)
Mr. O.P. Vaish	Non-Executive & Independent	5	Yes	6	3
Mr. Samir Kumar Modi	Executive	3	No	9	1

* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies.

Represents memberships/chairmanships of Audit Committee, Shareholders/Investors Grievances Committee and Remuneration Committee (excluding private companies).

iii) Board Meetings held during the year

During the year 2004-05, eight Board Meetings were held on the following dates:

April 7, 2004, April 24, 2004, July 21, 2004, August 20, 2004, September 28, 2004, October 27, 2004, January 29, 2005 and March 2, 2005.

In addition to the regular business items, other information as applicable pursuant to the requirements under the Listing Agreement with the Stock Exchanges were placed before the Board.

iv) The details of pecuniary relationship or transactions of the non-executive directors vis-a-vis the Company are given below:

Name of the director	Amount involved (Rs. in lacs)	Nature of transaction
1. Mr. R.A. Shah & Mr. C.M. Maniar (Senior Partners of Crawford Bayley & Co.)	18.78	Payment for professional services
2. Mr. Lalit Bhasin (Proprietor of Bhasin & Co.)	1.78	Payment for professional services
3. Mr. O.P. Vaish (Relatives of Mr. Vaish are partners in Vaish Associates)	3.73	Payment for professional services

v) Brief resume, experience and other directorships/board committee memberships

As per the Articles of Association of the Company, one-third of the total strength of the Board (i.e. three directors at present namely Mr. R.A. Shah, Mr. Lalit Kumar Modi & Mr. Samir Kumar Modi) shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible shall be re-appointed subject to shareholders approval.

Name of the Director	Mr. R.A. Shah
Qualifications	
Experience	He is a Solicitor and Senior Partner of Messrs Crawford Bayley & Co. Specialises in a broad spectrum of Corporate Laws in general with special focus on Foreign Investments, Joint Ventures, Technology and Licence Agreement, Intellectual Property Rights, Mergers and Acquisitions, Industrial Licensing, Anti Trust Laws, Company Law and Taxation. Member of the Managing Committee of Bombay Chamber of Commerce. Member of Indo German Chamber of Commerce. Member of the Committee for revision of SEBI Takeover Code. President of Society of Indian Law firms (Western Region)
Names of other companies in which he holds directorships of the Board and membership/ chairmanships of committees of the Board*	1. Fulford India Limited 2. Pfizer Limited (Also chairman of Audit Committee) 3. Colgate Palmolive India Limited (Also chairman of Audit Committee) 4. The Bombay Dyeing & Mfg. Company Limited. (Also chairman of Audit Committee and member of Remuneration Committee) 5. BASF India Limited (Also a member of Audit Committee) 6. Colour Chem Limited (Also a member of Audit Committee) 7. Abbott India Limited (Also a member of Audit Committee) 8. Procter & Gamble Hygiene and Healthcare Limited. (Also a member of Audit Committee) 9. Nicholas Piramal India Limited (Also chairman of Audit Committee) 10. Atul Limited 11. Asian Paints (India) Limited 12. Clariant India Limited 13. Deepak Fertilisers & Petrochemicals Corporation Limited 14. Philips India Limited

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Name of the Director	Mr. Lalit Kumar Modi
Qualifications	Studied Electrical Engineering and Business Administration at Pace University & Duke University, U.S.A. during 1983-86.
Experience	Underwent Training with Philip Morris Inc., New York in 1984 and Estee Lauder in 1985. Management Trainee Finance in the Company in 1986. President of International Tobacco Company Limited from 1987 to 1991. Associated with the Company since February, 1992 as an Executive Director and acquired considerable experience in finance, marketing, advertising and administration.
Names of other companies in which he holds directorships of the Board and membership/ chairmanship of committees of the Board*	1. Indofil Organic Industries Limited 2. Modicare Limited 3. Modi Reach Finance & Investment (India) Limited 4. Indian Cricket League Limited 5. MEN Interactive Network Limited 6. Modi Entertainment Limited (Also chairman of Audit Committee) 7. Success Principles Limited 8. Modicare Sales & Services Limited 9. Modern Home Care Products Limited
Name of the Director	Mr. Samir Kumar Modi
Qualifications	B.A. from Hindu College, Delhi University
Experience	Worked as Management Trainee with Philip Morris Inc., USA from August 1992 to December 1993 and acquired considerable experience in marketing and distribution, development of cigarette brands and retail promotions. Handled MARLBORO promotion for the years 1993-94 and 1994-95. Also acquired in depth knowledge of cigarette production in Philip Morris Inc. factories during 1992-93. Associated with the Company since January 11, 1994 as Whole-time/ Executive Director. Launched first Multi Level Marketing Company in India in 1996.
Names of other companies in which he holds directorships of the Board and membership/ chairmanship of committees of the Board*	1. Indofil Organic Industries Limited 2. Modicare Limited (Also member of Audit Committee) 3. Modi Reach Finance & Investment (India) Limited 4. Indian Cricket League Limited 5. MEN Interactive Network Limited 6. Modi Entertainment Limited 7. Success Principles Limited 8. Modicare Sales & Services Limited 9. Modern Home Care Products Limited

* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies. Represents memberships/chairmanships of Audit Committee, Shareholders/Investors Grievances Committee and Remuneration Committee (excluding private companies).

3. AUDIT COMMITTEE

i) Composition and terms of reference

The Board of Directors of the Company at their meeting held on January 31, 2001 constituted an Audit Committee comprising of three non-executive independent directors namely Mr.O.P.Vaish, Mr. Anup N. Kothari and Mr. Lalit Bhasin, in pursuance of the provisions of Section 292A of the Companies Act, 1956. Subsequently the Board at their meeting held on April 18, 2001 revised the terms of reference of the Audit Committee so as to cover all the areas specified in Section 292A of the Companies Act, 1956 as well as those specified in clause 49 of the Listing Agreement. Mr. O.P. Vaish who has financial and accounting knowledge, is the Chairman of the Audit Committee. Mr. R. Joshi, Company Secretary acts as the Secretary to the Committee.

The Chairman attended the Annual General Meeting held on September 28, 2004 to answer the shareholders' queries.

The terms of reference of the audit committee are in accordance with clause 49 of the listing agreement entered into with the stock exchanges, and provisions of Section 292A of the Companies Act, 1956 and inter-alia include overseeing financial reporting process, reviewing disclosures and the financial statements before submission to the Board, reviewing internal control systems and internal audit functions etc.

Audit Committee meetings are attended by members of Audit Committee. Managing Director also being director in charge of finance, Executive Vice-President-Finance, Company Secretary, Internal Auditors and the Statutory Auditors attend the meetings as the invitees.

ii) Details of meetings and attendance of each member of the Committee

During the financial year 2004-05, the Audit Committee met five times on April 20, 2004, July 20, 2004, August 20, 2004, October 26, 2004 and January 27, 2005.

Sl. No.	Name	Category of directors	No. of Committee Meetings attended (Total Meetings held-5)
1	Mr. O.P. Vaish	Non-Executive & Independent	5
2	Mr. Lalit Bhasin	Non-Executive & Independent	5
3	Mr. Anup N. Kothari	Non-Executive & Independent	5

4. REMUNERATION TO DIRECTORS

(i) Remuneration policy

The Company has not constituted any Remuneration Committee. The remuneration to be paid to the Managing/ Executive/Whole-time Directors is decided by the Board and recommended for approval by the shareholders at the Annual General Meeting. The non-executive directors do not draw any remuneration from the Company except the payment of sitting fee of Rs. 20,000 for each meeting of the Board and the Board Committee attended by them. As per provisions of the Articles of Association of the Company the overall payment of sitting fees to a director for attending the Board and Committee meetings shall not exceed Rs.3 lacs in a financial year.

ii) Details of remuneration to the directors

(Amount in Rs.)

Name of the Director	Salary and other allowances*	Perquisites	Commission	Sitting Fees Board/ Committee Meetings	Total
Mr. R.A. Shah	Nil	Nil	Nil	160,000	160,000
Mr. K.K. Modi ¹	6,000,000	Nil	4,000,000	Nil	10,000,000
Mr.S.V. Shanbhag ²	378,000	71,306	Nil	Nil	449,306
Mr. Lalit Bhasin	Nil	Nil	Nil	180,000	180,000
Mr. Anup N. Kothari	Nil	Nil	Nil	260,000	260,000
Mr. Lalit Kumar Modi ³	720,000	798,779	720,000	Nil	2,238,779
Mr. C.M. Maniar	Nil	Nil	Nil	220,000	220,000
Mr. O.P. Vaish	Nil	Nil	Nil	200,000	200,000
Mr. Samir Kumar Modi ⁴	756,000	644,917	630,000	Nil	2,030,917
Total	7,854,000	1,515,002	5,350,000	1,020,000	15,739,002

* excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

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iii) Details of service contract, notice period, severance fees etc. of directors

¹The Company has service contract with Mr.K.K. Modi, Managing Director for a period of three years with effect from August 14, 2003. The notice period is six calendar months by either party. No severance fees is payable to him. Besides fixed salary, Mr. Modi is also entitled to payment of performance linked incentive in the form of commission @ 2% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956, subject to a ceiling of Rs. 40 lacs per annum.

²The Company has service contract with Mr.S.V. Shanbhag, Whole-time Director for a period of three years with effect from October 1, 2004. The notice period is three months by either party. However, the Company has the right to terminate appointment forthwith upon payment of three months salary only in lieu of notice and in that case he is not entitled to any benefits or perquisites.

³The Company has service contract with Mr. L.K. Modi, Executive Director for the period from October 1, 2004 till the Annual General Meeting to be held for the approval of the audited accounts for the financial year ending March 31, 2007. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Lalit Kumar Modi is also entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in a General Meeting.

⁴The Company has service contract with Mr. Samir Kumar Modi, Executive Director for the period from October 1, 2004 till the date of the Annual General Meeting of the Company to be held for the approval of the audited accounts for the financial year ending March 31, 2007. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary allowances and perquisites, Mr. Samir Kumar Modi is entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in a General Meeting.

The Company presently does not have any stock option scheme.

5. SHARE TRANSFER AND SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Company had a Share Transfer Committee which was constituted on December 7, 1979.

The Board of Directors of the Company at their meeting held on January 28, 2002 re-constituted the Share Transfer Committee and renamed it as 'Share Transfer and Shareholders/Investors Grievance Committee'. Mr. C.M. Maniar a Non-Executive Director is its Chairman. Mr. K.K. Modi, Managing Director, Mr. S.V. Shanbhag, Executive Director and Mr. Lalit Bhasin, Non-Executive Director are its members. The re-constituted committee besides sanctioning share transfers/transmissions and other related matters, is also required to look into the redressal of shareholders' and other investors' complaints regarding transfer of shares, non-receipt of balance sheets and dividends, etc. Mr. R. Joshi, Company Secretary has been appointed as the Compliance Officer.

During the Financial year 2004-05, 55 complaints were received from the shareholders/investors and same were solved to the satisfaction of the shareholders/investors. There were three cases of share transfers pending as on March 31, 2005 which were processed and transfers completed in April, 2005.

6. GENERAL BODY MEETINGS

Details of the last three Annual General Meetings(AGM) are as follows:

Financial year	Date of AGM	Time	Location
2001-02	September 24, 2002	11:00 a.m.	Y.B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai-400021
2002-03	September 26, 2003	4.00 p.m.	-do-
2003-04	September 28, 2004	3:30 p.m.	-do-

There was no other General Body Meeting in the last three years.

No special resolutions was put through postal ballot during last year and no special resolution for current year is proposed to be conducted through postal ballot.

7. DISCLOSURES

- Related parties and transactions with them as required under Accounting Standard 18 (AS-18) are stated in note 12 of the Notes to the Accounts attached with the financial statements for the year ended March 31, 2005. The said transactions have no potential conflict with the interest of the Company at large.
- There has neither been any non-compliance by the Company of any legal provision of applicable law nor any penalties, strictures imposed on the Company by the stock exchanges, SEBI or any other statutory authorities, on any matter related to capital markets during the last three years.

8. MEANS OF COMMUNICATION

The quarterly, half yearly and annual results are generally published by the Company in all editions of Financial Express (English) and in Loksatta (Marathi). The quarterly and yearly results are also available on the Company's website : www.godfreyphillips.com as well as on Mumbai and National Stock Exchange website: www.bseindia.com & www.nseindia.com. The half-yearly reports are not sent to household of the shareholders. During the year, the Company had several occasions to make official news releases which have been uploaded on the Company's website and are accessible to investors and public at large. However no formal presentations were made to the institutional investors/analysts during the year.

The Management Discussion and Analysis Report forms a part of the Directors' Report.

9. GENERAL SHAREHOLDER INFORMATION

i) Annual General Meeting

Date and Time : September 15, 2005 at 3.30 P.M.
Venue : Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai – 400 020

ii) Financial Calendar for 2005-06

First Quarter Results : July 2005
Second Quarter Results : October 2005
Third Quarter Results : January 2006
Annual Results : June 2006

iii) Date of Book Closure :

September 12, 2005 to September 15, 2005 (both days inclusive)

iv) Dividend Payment Date :

Dividend payments shall be made on or after September 20, 2005 to those shareholders whose names shall appear on the Members' Register as on September 15, 2005.

v) Listing on the Stock Exchange :

The Company's shares are listed on National Stock Exchange (Stock Code GODFRYPHLP), Mumbai Stock Exchange (Stock Code 500163) and the Calcutta Stock Exchange (Stock Code 10017335 for shares in Demat form and 17335 for physical form). The Company's application for delisting of its equity shares from Calcutta Stock exchange is still pending decision by a committee of that exchange set up for the purpose.

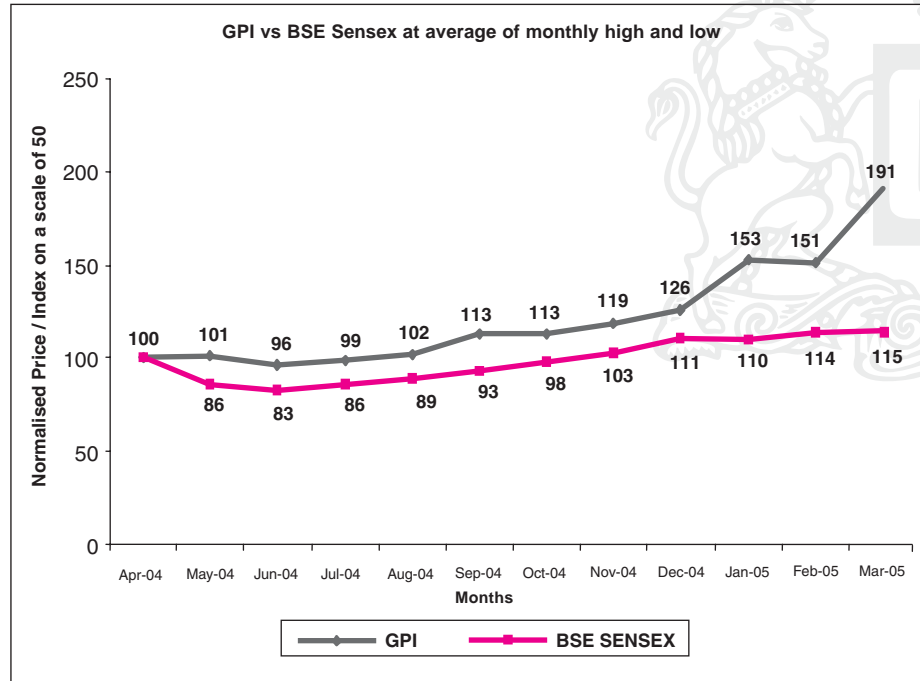
vi) Market Price Data of equity shares in the Company

High, Low during each month in the financial year 2004-05, on The Mumbai Stock Exchange

Month	High (Rs.)	Low (Rs.)
April 2004	410.00	362.00
May 2004	411.00	370.00
June 2004	389.90	354.00
July 2004	403.85	360.00
August 2004	415.00	370.50
September 2004	461.00	409.00
October 2004	444.45	429.00
November 2004	490.00	430.00
December 2004	527.55	446.00
January 2005	650.00	527.05
February 2005	622.00	546.10
March 2005	925.00	550.00

GODFREY PHILLIPS INDIA LIMITED

vii) Performance in comparison to BSE Sensex



viii) Registrar and Share Transfer Agent

Sharepro Services (India) Pvt. Ltd.
 Satam Estate
 3rd Floor, Above Bank of Baroda
 Cardinal Gracious Road, Chakala
 Andheri (East), Mumbai-400099
 Telephone No : 022-28215168, 28329828, 28215991
 Fax No : 022-28375646
 E-mail : sharepro@vsnl.com

ix) Share Transfer System

The Company's share transfers and related operations are handled by Sharepro Services (India) Pvt. Ltd., Registrar and Transfer Agents(RTA) which is registered with the SEBI as a Category 1 registrar.

The shares for transfers received in physical mode by the Company/RTA, are transferred expeditiously provided the documents are complete and shares under transfer are not under dispute. The share certificates duly endorsed are returned immediately to those who do not opt for simultaneous transfer cum dematerialisation. Confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories NSDL/CDSL within 21 days.

x) Distribution of shareholding as on March 31, 2005

Number of equity share holdings	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-50	4223	36.04	88363	0.85
51-100	2728	23.28	251073	2.41
101-500	4276	36.49	916314	8.81
501-1000	273	2.33	194167	1.86
1001-5000	154	1.31	298817	2.87
5001-10000	19	0.16	150749	1.45
10001 & Above	46	0.39	8499301	81.73
TOTAL	11719	100	10398784	100

xi) Category of Shareholding as on March 31, 2005

Sl. No.	Category of shareholders	No. of shares held	Percentage of shareholding
A	PROMOTER'S HOLDING		
1	Promoters		
	Indian Promoters	3,826,533	36.80
	Foreign Promoters	3,736,704	35.93
2	Persons acting in concert	NIL	NIL
	Sub Total	7,563,237	72.73
B	NON-PROMOTER'S HOLDING		
	Institutional Investors		
	- Mutual Fund	125	—
	- UTI	NIL	NIL
	- Banks	9,134	0.09
	- Insurance Companies	NIL	NIL
	- State Government	4,800	0.05
	- State Financial Corp.	1,200	0.01
	- FII's	628,483	6.04
	Sub Total	643,742	6.19
	Others		
	Private Corporate Bodies	187,512	1.80
	Indian Public	19,31,418	18.57
	NRIs/OCBs	63,802	0.62
	Directors & Relatives	9073	0.09
	Sub Total	21,91,805	21.08
	Grand Total	10,398,784	100.00

GODFREY PHILLIPS INDIA LIMITED

Name of the Promoters as on 31st March, 2005

(A) Indian Promoters

Indo-Euro Investment Co. Pvt. Ltd, Good Investment (India) Ltd, Quick Investment (India) Ltd, Spin Investment India Ltd, K.K. Modi (Trustee), S.K. Modi (Trustee), Touchwood Investments Pvt. Ltd, Longwell Investments Pvt. Ltd, Motto Investment Pvt. Ltd, Swasth Investment Pvt. Ltd, Ritika Modi, Divya Modi, Super Investment India Ltd, K.N. Modi (Trustee), M.K. Modi (Trustee), R.B. Gujarmal Modi & Bros. Pvt. Ltd, Upasana Investment Pvt. Ltd, HMA Udyog Pvt. Ltd, K.K. Modi, Lalit Kumar Modi, Samir Kumar Modi, K.K. Modi Investment & Financial Services Pvt. Ltd, Modi Reach Finance & Investments (I) Ltd, Gemini Trade Links Ltd, Cindrella Holdings Pvt. Ltd, Cindrella Developments Pvt. Ltd, Cindrella Resources Pvt. Ltd, Subhsree Patrochem Industrial Investments Ltd, Aarsree Agra Ltd, Ramraj Enterprises Ltd, Anjney Investments and Trading Co. Ltd, Modicare Ltd, Emco Finvest Pvt. Ltd.

(B) Foreign Promoters

Philip Morris International Finance Corporation and their nominees.

xii) Dematerialisation of shares

The shares of the Company are compulsorily traded in the dematerialised form and are available for trading under both the Depository Systems- NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services (India) Ltd). As on March 31, 2005, a total of 4,303,953 equity shares of the Company, which forms 41.39% of the share capital, stand dematerialised.

Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's equity shares is INE260B01010.

xiii) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments

The Company has no outstanding GDRs/ADRs/Warrants or any convertible instruments.

xiv) Plant Locations

The Company's plant is situated at Andheri (Mumbai) and the other one owned by the Company's wholly owned subsidiary, International Tobacco Company Limited, is located at Guldhar (Ghaziabad).

Andheri Plant : V.K.K. Menon Road (Sahar Road),
Chakala, Andheri (East),
Mumbai-400099

**Guldhar
(Ghaziabad Plant)** : International Tobacco Company Ltd.
Delhi- Meerut Road
Guldhar, Ghaziabad

Address for Correspondence

Shareholders should address all their correspondence concerning shares to the Company's Registrars and Share Transfers Agent, Sharepro Services (India) Pvt. Ltd. at the address mentioned above or at:

Sharepro Services (India) Pvt. Ltd.
912, Raheja Centre,
Free Press Journal Road,
Nariman Point, Mumbai- 400021
Telephone No : 022-22825163, 22881569
Fax No : 022-22825484
E-mail : sharepro@vsnl.com

10. NON-MANDATORY CLAUSES

The Company has not adopted any of the non-mandatory requirements as mentioned in annexure 3 of clause 49 of the Listing Agreement.

11. AMENDMENT IN THE TEXT OF CLAUSE 49 OF LISTING AGREEMENT WITH THE STOCK EXCHANGES

In accordance with the amended text of Clause 49 of the Listing Agreement with the Stock Exchanges on Corporate Governance the Board of Directors at their meeting held on 29th January, 2005 amended the terms of reference of the Audit Committee, criteria for determining independent director, appointment of Mr. K.K. Modi, Managing Director as the Chief Executive Officer and Mr. R.N. Agarwal, Executive Vice President – Finance as the Chief Financial Officer etc. for the purpose of fulfilling the requirements of the amended text. However SEBI vide its Circular No. SEBI/CFD/DIL/CG/1/2005/29 dated 29th March, 2005 has extended the date for ensuring the compliance with the revised Clause 49 of the Listing Agreement upto 31st December, 2005.

For and on behalf of the Board

Place : Ghaziabad
Date : June 30, 2005

R.A. SHAH
Chairman

GODFREY PHILLIPS INDIA LIMITED

Certificate

To the Members of Godfrey Phillips India Limited

We have examined the compliance of conditions of Corporate Governance by Godfrey Phillips India Limited for the year ended March 31, 2005, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended March 31, 2005, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A.F. FERGUSON & CO.
Chartered Accountants

A.K. MAHINDRA
Partner
(Membership No. 10296)

New Delhi : 30th June, 2005

Auditors' Report

To the Members of Godfrey Phillips India Limited

1. We have audited the attached balance sheet of Godfrey Phillips India Limited as at March 31, 2005 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above:
 - (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - (v) on the basis of the written representations received from the directors as on March 31, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - (vi) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2005;
 - (b) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F. FERGUSON & CO.
Chartered Accountants

A.K. MAHINDRA
Partner
(Membership No. 10296)

New Delhi : 30th June, 2005

Annexure referred to in paragraph 3 of Auditors' Report to the Members of GODFREY PHILLIPS INDIA LIMITED on the accounts for the year ended March 31, 2005

- (i) (a) The Company is maintaining proper records to show full particulars, including quantitative details and situation of fixed assets.
- (b) As explained to us, the Company has a system of physical verification of fixed assets which is designed to cover all fixed assets once in a period of three years and in accordance therewith, no physical verification was due in the current year. In our opinion, the frequency of verification is reasonable having regard to the size of the Company and the nature of its fixed assets.
- (c) During the year, in our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company.
- (ii) (a) The inventories have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were found reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the record of inventories, in our opinion, the Company has maintained proper records of inventories and the discrepancies noticed on physical verification between the physical stocks and the book records were not material in relation to the operations of the Company and have been properly dealt with in the books of account.
- (iii) According to the information and explanations given to us, the Company has neither granted nor taken any loans, secured or unsecured to/from companies, firms and other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4 (iii) (b) to (g) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) are not applicable.
- (iv) According to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventories and fixed assets and for the sale of goods. There are no sale of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have been informed of any instance of major weakness in the aforesaid internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that during the year, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under the section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time except for items stated to be of specialised nature for which there are no alternate sources of supply/sales available to enable a comparison of prices.
- (vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed thereunder with regard to the deposits accepted from the public. As per information and explanations given to us, no order under the aforesaid sections has been passed by the Company Law Board or Reserve Bank of India or any court or any other tribunal, on the Company.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) We are informed that the maintenance of cost records has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956 in respect of the Company's products.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it except in respect of dues of entry tax, works contract tax and sales tax which have generally been regularly

deposited. We are informed that there are no undisputed statutory dues as at the year end outstanding for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of income-tax, wealth tax, service tax, customs duty, excise duty and cess matters which have not been deposited on account of any dispute.

The details of disputed sales tax dues, that have not been deposited by the Company as at March 31, 2005 are as follows: -

Name of the statute	Nature of dues	Amount (Rs. in lacs)	Period to which the amount relates	Forum where dispute is pending
Sales Tax Laws	Sales tax	0.58	1995-96, 2001-2002	Sales Tax Tribunal
		4.84	1998-99, 1999-2000, 2001-2002, 2002-2003	Commissioner
		2.20	1999-2000	Dy. Commissioner (Appeals)

- (x) The Company does not have accumulated losses as at the end of financial year March 31, 2005. Further, the Company has not incurred any cash losses during the financial year ended March 31, 2005 and in the immediately preceding financial year ended March 31, 2004.
- (xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.
- (xii) In our opinion and according to the explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities during the year.
- (xiii) Since the Company is not a chit fund or nidhi/mutual benefit fund/society, paragraph 4 (xiii) of the Order is not applicable.
- (xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.
- (xv) According to the information and explanations given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions during the year.
- (xvi) In our opinion and according to the information and explanations given to us, the term loan taken during the year has been applied for the purpose for which it was obtained.
- (xvii) In our opinion and according to the explanations given to us, and on an overall examination of the balance sheet of the Company, we report that during the year short term funds have not been used to finance long term investments.
- (xviii) The Company has not made any preferential allotment of shares during the year.
- (xix) The Company has not issued any debentures during the year.
- (xx) The Company has not raised money by way of public issue, during the year.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year ended March 31, 2005.

For A.F. FERGUSON & CO.
Chartered Accountants

A.K. MAHINDRA
Partner
(Membership No. 10296)

New Delhi : 30th June, 2005

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Balance sheet as at March 31, 2005

			Rupees in lacs	
	Schedule Number	As at 31.3.2005	As at 31.3.2004	
SOURCES OF FUNDS				
Shareholders' funds				
Share capital	1	1039.88	1039.88	
Reserves and surplus	2	31661.15	27909.88	28949.76
Loan funds				
Secured	3	5920.22	537.19	
Unsecured		187.77	1208.78	
Deferred credits		115.61	322.84	2068.81
TOTAL		38924.63	31018.57	
APPLICATION OF FUNDS				
Fixed assets				
Gross block	4	20127.78	13721.31	
Less: Depreciation		7854.53	6312.91	
Net block		12273.25	7408.40	
Capital work-in-progress and advances on capital account		646.85	1323.26	8731.66
Investments	5	19915.78		14473.46
Deferred taxation				
Deferred tax assets	12	2612.89	2190.67	
Less: Deferred tax liabilities		1036.55	952.20	1238.47
Current assets, loans and advances				
Income accrued on investments		12.77	45.51	
Inventories	6	12782.57	12487.58	
Sundry debtors	7	251.19	1260.13	
Cash and bank balances	8	520.30	682.21	
Loans and advances	9	7301.79	5372.07	
		20868.62	19847.50	
Less:				
Current liabilities and provisions				
Current liabilities	10	12071.95	9953.03	
Provisions	11	4284.26	3319.49	
		16356.21	13272.52	
Net current assets		4512.41	6574.98	
TOTAL		38924.63	31018.57	
Notes to the accounts	16			

Per our report attached
For A.F. FERGUSON & CO.
Chartered Accountants

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

A.K. MAHINDRA
Partner
(Membership No. 10296)

R.N. AGARWAL
Ex. Vice President (Finance)

R. JOSHI
Company Secretary

SAMIR KUMAR MODI
Executive Director

S. SERU
Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

R.A. SHAH
Chairman

K.K. MODI
President

LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

Profit and loss account for the year ended March 31, 2005

			Rupees in lacs	
	Schedule Number	For the year ended 31.3.2005	For the year ended 31.3.2004	
INCOME				
Gross sales		129569.80	117652.49	
Less : Excise duty		61274.16	55187.50	
Net sales		68295.64	62464.99	
Other income	13	2967.91	2566.51	
		71263.55	65031.50	
EXPENSES				
Raw and packing materials, manufactured and other goods	14	26129.45	22525.51	
Manufacturing and other expenses	15	33736.60	33281.27	
Depreciation	4	1655.28	994.82	
(Decrease)/increase in excise duty on finished goods		(252.76)	581.29	
		61268.57	57382.89	
Profit before taxation		9994.98	7648.61	
Provision for taxation - current		3973.00	2872.57	
- deferred tax credit		(337.87)	(441.56)	
Profit after taxation		6359.85	5217.60	
Balance brought forward from previous year		18713.00	16929.38	
Available for appropriation		25072.85	22146.98	
APPROPRIATIONS				
Proposed dividend		2287.73	1975.77	
Corporate dividend tax		320.85	258.21	
Transferred to general reserve		1400.00	1200.00	
Surplus carried to balance sheet		21064.27	18713.00	
		25072.85	22146.98	
Basic and diluted earnings per share (Face value of share - Rs.10 each)		Rs.61.16	Rs.50.18	
Notes to the accounts	16			

Per our report attached
to the balance sheet
For A.F. FERGUSON & CO.
Chartered Accountants

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

A.K. MAHINDRA
Partner
(Membership No. 10296)

R.N. AGARWAL
Ex. Vice President (Finance)

R. JOSHI
Company Secretary

SAMIR KUMAR MODI
Executive Director

S. SERU
Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

R.A. SHAH
Chairman

K.K. MODI
President

LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Cash flow statement for the year ended March 31, 2005

	Rupees in lacs	
	For the year ended 31.3.2005	For the year ended 31.3.2004
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	9,994.98	7,648.61
Adjustments for:		
Depreciation	1,655.28	994.82
Interest income from:		
Subsidiary companies	(128.92)	(90.08)
Debts, deposits, loans, etc.	(120.60)	(186.39)
Dividends from other long term investments from:		
Subsidiary companies	-	(5.28)
Others	(49.32)	(64.21)
Dividends from other current investments	-	(116.21)
Interest income from other long term investments	(58.29)	(137.09)
Profit on redemption/sale of other long term investments	(372.65)	(564.35)
(Profit) / loss on sale of other current investments	(236.23)	4.01
Exchange (gain)/ loss on EEFC	(0.12)	17.35
Exchange gain on foreign currency borrowings	(56.38)	-
Provision for wealth-tax	15.00	12.00
Interest - fixed loans	42.83	66.09
- others	529.41	490.00
Bill discounting charges	-	11.91
Fixed assets written off	0.27	115.10
Loss / (profit) on sale of fixed assets	45.36	(93.92)
Provision for diminution in the value of other long term investments	-	(0.20)
	<u>1,265.64</u>	<u>453.55</u>
Operating profit before working capital changes	<u>11,260.62</u>	<u>8,102.16</u>
Adjustments for:		
Trade and other receivables	(551.49)	(885.21)
Inventories	(294.99)	(2,133.77)
Trade and other payables	1,791.87	1,284.64
	<u>945.39</u>	<u>(1,734.34)</u>
Cash generated from operations	<u>12,206.01</u>	<u>6,367.82</u>
Interest received	146.82	104.63
Direct taxes paid	(3,764.86)	(3,688.85)
	<u>(3,618.04)</u>	<u>(3,584.22)</u>
Net cash from operating activities	<u>8,587.97</u>	<u>2,783.60</u>

Cash flow statement (Continued)

	Rupees in lacs	
	For the year ended 31.3.2005	For the year ended 31.3.2004
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(5,951.95)	(2,492.72)
Proceeds from sale of fixed assets	29.91	181.91
Purchase of investments	(87,166.40)	(62,593.11)
Proceeds from sale of investments	82,332.96	64,315.71
Dividends from long term other investments	53.18	68.65
Dividends from other current investments	-	116.21
Interest received from other long term investments	87.16	128.46
Loans and deposits made	(834.50)	(580.50)
Deposits received back	550.00	450.00
Interest received	144.13	139.92
Net cash used in investing activities	<u>(10,755.51)</u>	<u>(265.47)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan availed	4,598.00	-
Repayment of fixed deposits	(138.22)	(109.91)
Repayment of long term borrowings	(232.48)	(220.48)
Proceeds from /(repayment of) working capital borrowings	114.61	(921.52)
Bill discounting charges paid	-	(11.91)
Interest paid	(107.95)	(204.11)
Dividend paid	(1,970.24)	(1,761.03)
Corporate dividend tax paid	(258.21)	(226.50)
Net cash used in financing activities	<u>2,005.51</u>	<u>(3,455.46)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(162.03)</u>	<u>(937.33)</u>
Opening cash and cash equivalents		
- Cash and bank balances	682.21	1,636.89
Closing cash and cash equivalents		
- Cash and bank balances	520.30	682.21
- Effect of exchange rate changes on foreign currency bank balance	(0.12)	17.35
	<u>520.18</u>	<u>699.56</u>

Per our report attached to the balance sheet For A.F. FERGUSON & CO. Chartered Accountants

A.K. MAHINDRA
Partner
(Membership No. 10296)

New Delhi : 30th June, 2005

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

R.N. AGARWAL
Ex. Vice President (Finance)

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Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

For and on behalf of the Board of Directors

R.A. SHAH
Chairman

K.K. MODI
President

LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Schedules 1 to 16 annexed to and forming part of the accounts for the year ended March 31, 2005

	Rupees in lacs	
	As at 31.3.2005	As at 31.3.2004

SCHEDULE 1 - Share capital

AUTHORISED

60,000 Preference shares of Rs. 100 each	60.00	60.00
2,44,00,000 Equity shares of Rs. 10 each	2440.00	2440.00
	<u>2500.00</u>	<u>2500.00</u>

ISSUED, SUBSCRIBED AND PAID UP

1,03,98,784 Equity shares of Rs.10 each fully paid up	1039.88	1039.88
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Of the above equity shares

- (i) 86,82,578 shares are allotted as fully paid up as bonus shares by capitalisation of general reserves Rs.311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs.519.94 lacs.
- (ii) 83,490 shares are allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation.

SCHEDULE 2 - Reserves and surplus

REVALUATION RESERVE			
Per last balance sheet	236.16		236.16
CAPITAL REDEMPTION RESERVE			
Per last balance sheet	30.00		30.00
GENERAL RESERVE			
Per last balance sheet	8930.72		7730.72
Add: Amount transferred from profit and loss account	1400.00	10330.72	1200.00
			8930.72
PROFIT AND LOSS ACCOUNT			
	21064.27		18713.00
	<u>31661.15</u>		<u>27909.88</u>

SCHEDULE 3 - Loan funds

SECURED

From banks:

- Term loan from a bank to be secured by way of an exclusive charge over specific plant and machinery	4391.00		-
- Cash credit and working capital demand loan secured against hypothecation of stocks and book debts and second charge on certain immovable properties of the Company	1529.22	5920.22	537.19
			537.19

UNSECURED

From a bank	-		877.42
Fixed deposits (Payable within 12 months Rs.181.19 lacs; previous year Rs.145.84 lacs)	181.19		319.41
Interest accrued and due on above	6.58	187.77	11.95
			1208.78

DEFERRED CREDITS

From a supplier against import of machineries (Payable within 12 months Rs.115.61 lacs; previous year Rs.215.22 lacs)	115.61		322.84
	<u>6223.60</u>		<u>2068.81</u>

SCHEDULE 4 - Fixed assets

	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 31.3.2004	Additions	Deductions	As at 31.3.2005	As at 31.3.2004	For the year	On deductions	As at 31.3.2005	As at 31.3.2005	As at 31.3.2004
Goodwill	1.20	-	-	1.20	-	-	-	-	1.20	1.20
Patents and trade marks	0.51	-	-	0.51	-	-	-	-	0.51	0.51
Land (leasehold)	437.46#	-	-	437.46#	-	-	-	-	437.46	437.46
Land (freehold)	377.93	-	-	377.93	-	-	-	-	377.93	377.93
Buildings	1171.88*	29.19	-	1201.07*	210.40	22.95	-	233.35	967.72	961.48
Plant and machinery	8929.65	6088.32	16.29	15001.68	5040.37	1335.43	6.10	6369.70	8631.98	3889.28
Electrical installation and equipments	116.10	17.04	-	133.14	38.74	6.35	-	45.09	88.05	77.36
Computers and Information technology equipments	727.98	152.83	86.90	793.91	375.42	116.35	66.17	425.60	368.31	352.56
Furniture, fixtures and office equipments	1009.44	123.80	19.82	1113.42	383.14	75.15	7.12	451.17	662.25	626.30
Motor vehicles	949.16	184.49	66.19	1067.46	264.84	99.05	34.27	329.62	737.84	684.32
Total	13721.31	6595.67	189.20	20127.78	6312.91	1655.28	113.66	7854.53	12273.25	
Previous year	12802.91	1245.56	327.16	13721.31	5437.67	994.82	119.58	6312.91		7408.40
Capital work-in-progress and advances on capital account									646.85	1323.26
									<u>12920.10</u>	<u>8731.66</u>

* Includes Rs. 0.02 lac (previous year Rs.0.02 lac) being the cost of shares in co-operative societies, Rs. 4.20 lacs (previous year Rs.4.20 lacs) towards cost of a flat in a co-operative society and Rs. 125.90 lacs (previous year Rs.125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Company.

Includes Rs. 425.98 lacs (previous year Rs.425.98 lacs) in respect of a plot of land, title for which is yet to be registered in the name of the Company.

- Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs.584.03 lacs (previous year Rs. 2342.87 lacs).
- Additions for the year are net of exchange gain (net) of Rs.128.85 lacs (previous year-include exchange loss of Rs. 30.77 lacs) on account of fluctuations in the rate of exchange including decrease/ increase in rupee liability of long term foreign currency loan.
- Additions for the year include Rs.92.68 lacs (previous year Rs. Nil) towards the amount of borrowing costs capitalised.

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Rupees in lacs

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004		As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments			SCHEDULE 5 - Investments (Continued)		
a) LONG TERM (At cost)					
TRADE INVESTMENT - QUOTED					
MOI Engineering Limited 3,500 Equity shares of Rs.10 each fully paid up	0.25	0.25	25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each	353.50	353.50
TRADE INVESTMENT - UNQUOTED			20,00,000 Units of Templeton Monthly Income Plan-Half Yearly Dividend of Rs.10 each	198.18	198.18
Subsidiary company			35,84,037 Units of Templeton India Govt. Securities Fund - Growth Plan of Rs.10 each	597.23	597.23
International Tobacco Company Limited 1,00,000 Equity shares of Rs.100 each fully paid up	100.00	100.00	Nil (Previous year 64,85,957) Units of Templeton India Income Builder Account - Institutional Plan - Growth of Rs.10 each (sold during the year)	-	700.00
OTHER INVESTMENTS - QUOTED			14,33,918 Units of Templeton India Income Builder Account Plan A - Growth of Rs. 10 each	300.00	300.00
Konkan Railway Corporation Limited Nil (Previous year 50,000) 10.5% Tax-Free Secured Redeemable Non-convertible Bonds of Rs.1000 each (redeemed during the year)	-	475.50	Prudential ICICI Mutual Fund 103,08,923 Units of Prudential ICICI Income Plan-Growth of Rs.10 each	1455.72	1455.72
Indian Railway Finance Corporation Limited Nil (Previous year 60,000) 10.5% Secured Redeemable Non-convertible Bonds of Rs.1000 each (redeemed during the year)	-	606.30	25,56,402 Units of Prudential ICICI Gilt Fund Investment Plan - Growth of Rs.10 each	398.12	398.74
Unit Trust of India 3,83,900 6.75% Tax Free US64 Bonds of Rs.100 each	383.90	383.90	45,38,687 Units of Prudential ICICI Flexible Income Plan - Growth of Rs.10 each	500.00	500.00
OTHER INVESTMENTS - UNQUOTED			100,00,000 Units of Prudential ICICI FMP- Growth Yearly XII Institutional of Rs.10 each (purchased during the year)	1000.00	-
Subsidiary companies:			Birla Mutual Fund 42,47,005 (Previous year 52,30,047) Units of Birla Income Plus Plan B - Growth of Rs.10 each (9,83,042 Units sold during the year)	757.68	933.06
Chase Investments Limited 40,010 Equity shares of Rs.100 each fully paid up 1,58,490 Equity shares of Rs.100 each Rs.50 paid up	40.01 79.24	40.01 79.24	14,12,030 Units of Birla Gilt Plus P F Plan - Growth of Rs.10 each	199.02	199.02
City Leasing and Finance Company Limited 4,00,020 Equity shares of Rs.10 each fully paid up 15,49,980 Equity shares of Rs.10 each Rs.5.50 paid up	40.00 85.25	40.00 85.25	12,46,416 Units of Birla Gilt Plus Regular Plan - Growth of Rs.10 each	199.37	199.37
Manhattan Credits and Finance Limited 19,50,000 Equity shares of Rs.10 each fully paid up	195.00	195.00	100,00,000 Units of Birla Fixed Term Plan Series A - Growth of Rs.10 each (purchased during the year)	1000.00	-
Others:			17,68,113 Units of Birla MIP Plan C - Growth of Rs.10 each (purchased during the year)	277.78	-
Success Principles India Limited 1,99,673 Equity shares of Rs.10 each fully paid up	19.97	19.97	Kotak Mahindra Mutual Fund 21,54,634 Units of Kotak Gilt (Investment Regular) - Growth of Rs.10 each	362.87	362.87
Modi Entertainers Networks Private Limited 1,000 Equity shares of Rs.10 each fully paid up	0.10	0.10	27,52,305 Units of Kotak Bond Regular - Growth [Formerly Kotak Bond Unit Scheme 99 (Wholesale Plan) - Growth] of Rs. 10 each	408.84	408.84
Sundaram Mutual Fund 1,00,000 Units of Sundaram Growth Fund - Appreciation of Rs.10 each	10.00	10.00	DSP Merrill Lynch Mutual Fund 39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs.10 each	595.82	595.82
38,49,081 Units of Sundaram Bond Saver - Appreciation of Rs.10 each	596.31	596.31	SBI Mutual Fund 34,44,028 (Previous year 51,49,039) Units of Magnum Income Fund - Growth Plan of Rs.10 each (17,05,011 Units sold during the year)	397.87	594.83
23,01,943 Units of Sundaram Bond Saver - Bonus (Bonus Units) of Rs.10 each	236.84	236.84			
Franklin Templeton Mutual Fund 7,68,420 (Previous year 6,97,819) Units of Templeton India Growth Fund - Dividend of Rs.10 each (70,601 Units purchased during the year)	103.45	86.00			

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

	Rupees in lacs	
	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments (Continued)		
22,92,313 Units of Magnum Monthly Income Plan-Growth Option of Rs.10 each (purchased during the year)	316.21	-
Alliance Capital Mutual Fund		
24,86,877 (Previous year 22,76,007) Units of Alliance Monthly Income-Quarterly Dividend of Rs.10 each (2,10,870 Units purchased during the year)	282.26	259.48
Standard Chartered Mutual Fund		
136,53,406 Units of GSSG GSSIF - Investment Plan - Growth Option of Rs.10 each	1641.90	1641.90
150,00,000 Units of Grindlays Fixed Maturity 7th Plan - B - Growth of Rs.10 each (purchased during the year)	1500.00	-
HDFC Mutual Fund		
40,56,978 Units of HDFC Income Fund - Growth of Rs.10 each	471.19	471.19
16,58,375 Units of HDFC High Interest Fund - Growth Plan of Rs.10 each	254.87	254.87
Chola Mutual Fund		
5,88,235 Units of Chola Triple Ace - Regular - Cumulative of Rs.10 each	99.38	99.38
7,85,989 Units of Chola Triple Ace- Regular - Bonus - Bonus Units of Rs.10 each	88.89	88.89
HSBC Mutual Fund		
Nil (Previous year 50,00,000) Units of HSBC Institutional Income Fund-Investment Plan - Growth of Rs. 10 each (sold during the year)	-	500.00
Principal Mutual Fund		
14,01,384 Units of Principal Income Fund - Growth Plan of Rs.10 each	200.00	200.00
20,00,000 Units of Principal Deposit Fund (FMP-6) 371 Days Plan Mar 05- Growth Rs.10 each (purchased during the year)	200.00	-
UTI Mutual Fund		
13,93,338 Units of UTI Bond Advantage Fund Growth Plan (Formerly IL&FS Bond Fund- Growth Plan) of Rs.10 each	205.54	205.54
50,00,000 Units of UTI Fixed Maturity Plan - (YFM P/02/05) Growth Plan of Rs.10 each (purchased during the year)	500.00	-
Reliance Mutual Fund		
14,11,423 Units of RMTF - Retail Plan - Growth Plan - Bonus Option of Rs.10 each (purchased during the year)	142.86	-
50,00,000 Units of Reliance Fixed Maturity Fund - Annual Plan -Series1- Growth Option of Rs.10 each (purchased during the year)	500.00	-
Deutsche Mutual Fund		
50,00,000 Units of Deutsche Fixed Term Fund - Growth Option of Rs.10 each (purchased during the year)	500.00	-

	Rupees in lacs	
	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments (Continued)		
TATA Mutual Fund		
50,00,000 Units of TATA Fixed Horizon Series 1 - Plan A (371 days) - Growth of Rs.10 each (purchased during the year)	500.00	-
ING Vysya Mutual Fund		
19,69,066 Units of ING Vysya Select Debt Fund-Growth of Rs.10 each (purchased during the year)	200.00	-
Government Securities		
(Lodged as security with Government Authorities)	0.36	0.36
b) CURRENT (At lower of cost and fair value)		
OTHER INVESTMENT - UNQUOTED		
Principal Mutual Fund		
137,90,424 Units of Principal Cash Management Fund Liquid Option Institutional Premium Plan - Growth of Rs. 10 each (purchased during the year)	1420.00	-
	19915.78	14473.46
Aggregate amount of quoted investments	384.15	1465.95
Aggregate amount of unquoted investments:		
- Units of Mutual Funds	18971.70	12447.58
- Others	559.93	559.93
	19531.63	13007.51
Market value of quoted investments	396.85	1532.90
Net asset value/repurchase price of units of Mutual Funds	22843.14	16626.95
Note:		
Details of investments purchased and sold during the year in addition to such details given above :		
- Prudential ICICI Liquid Plan/Liquid Plan Institutional Plus- Growth Option 7,75,69,347 Units of Rs.10 each at cost of Rs.12555 lacs		
- Birla Cash Plus Institutional Premium Plan -Growth 6,14,06,526 Units of Rs.10 each at cost of Rs.6250 lacs		
- Tata Liquid High/Super High Investment Fund-Appreciation 10,54,03,869 Units of Rs.10 each at cost of Rs.19255 lacs		
- Tata Floating Rate Short Term Institutional Plan- Growth 5,73,46,422 Units of Rs.10 each at cost of Rs.5870 lacs		
- Kotak Liquid Institutional (Premium) -Growth 6,21,68,391 Units of Rs.10 each at cost of Rs.7980 lacs		
- Grindlays Cash Fund Institutional Plan B/Super Institutional Plan C-Growth 5,75,24,244 units of Rs.10 each at cost of Rs.5840 lacs		
- Templeton Floating Rate Income Fund-Short Term Plan / Long Term Plan Growth 5,78,70,626 units of Rs.10 each at cost of Rs.6755.22 lacs		
- HSBC Floating Rate Fund - Long Term Plan Institutional Growth 56,34,394 Units of Rs.10 each at cost of Rs.567.58 lacs		
- UTI Liquid Cash Plan Institutional - Growth Option 7,03,888 Units of Rs. 1000 each at cost of Rs. 7540 lacs.		
- Grindlays Floating Rate -Short Term-Institutional Plan B/Super Institutional Plan C-Growth 5,94,73,947 Units of Rs.10 each at cost of Rs.6100 lacs		
- RMTF - Retail Plan - Growth Plan-Bonus Option 35,28,557 Units of Rs. 10 each at cost of Rs.357.14 lacs.		

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

	Rupees in lacs	
	As at 31.3.2005	As at 31.3.2004
SCHEDULE 6 - Inventories		
At cost or under:		
Stores and spare parts	389.55	366.51
At lower of cost and net realisable value:		
Raw and packing materials	8414.79	8024.61
Work-in-process	89.66	79.61
Finished goods - Cigarettes	2880.80	3248.77
- Cigars	56.76	46.12
Other goods	545.32	325.56
Real estate*	405.69	396.40
	<u>12782.57</u>	<u>12487.58</u>

*Includes land at revalued cost

SCHEDULE 7- Sundry debtors

CONSIDERED GOOD		
Over six months - unsecured	0.45	0.37
Others - secured	22.91	56.00
- unsecured	227.83	1203.76
CONSIDERED DOUBTFUL		
Over six months	104.58	105.12
	<u>355.77</u>	<u>1365.25</u>
Less: Provision for doubtful debts	104.58	105.12
	<u>251.19</u>	<u>1260.13</u>

SCHEDULE 8 - Cash and bank balances

Cash on hand	16.72	19.71
Cheques on hand	106.41	161.31
With scheduled banks : On current accounts	365.15	382.68
: On margin money accounts	31.57	118.06
: On fixed deposit accounts**	0.45	0.45
	<u>520.30</u>	<u>682.21</u>

** Lodged as security with Government Authorities

	Rupees in lacs	
	As at 31.3.2005	As at 31.3.2004
SCHEDULE 9 - Loans and advances		
Unsecured, considered good, unless otherwise stated:		
Advances recoverable in cash or in kind or for value to be received*	1788.35	1951.40
Considered doubtful	2797.51	2334.96
	<u>4585.86</u>	<u>4286.36</u>
Less: Provision for doubtful advances	2797.51	2334.96
	<u>1788.35</u>	<u>1951.40</u>
Inter corporate deposits	1025.00	925.00
Dues from subsidiary companies **	3180.94	1850.53
With excise and customs on current/cenvat accounts	767.92	210.28
Income-tax recoverable	539.58	434.86
	<u>7301.79</u>	<u>5372.07</u>

* Includes:

- i) Rs.1.46 lacs (previous year Rs.0.06 lac) due from officer/directors of the Company. Maximum amount due during the year Rs.1.46 lacs (previous year Rs.0.99 lac).
- ii) Rs. 0.09 lac (previous year Rs.Nil) due from Modipon Ltd., a company under the same management. Maximum amount due during the year Rs.0.53 lac (previous year Rs. 1.59 lacs).
- iii) Rs. 0.03 lac (previous year Rs. Nil) due from a private company in which some of the directors of the Company are directors.

** Dues from subsidiaries represent loans and advances recallable on demand and comprise of:

- i) Interest free loans to Kashyap Metal and Allied Industries Limited (given prior to insertion of section 372A on October 31, 1998) Rs.342.65 lacs (previous year Rs.342.65 lacs). Maximum amount due during the year Rs.342.65 lacs (previous year Rs.342.65 lacs).
- ii) Interest bearing loans/advances to:
 - (a) Loans to Kashyap Metal and Allied Industries Limited Rs.1119.81 lacs (previous year Rs.930.38 lacs). Maximum amount due during the year Rs. 1119.81 lacs (previous year Rs.930.38 lacs).
 - (b) Advances to International Tobacco Company Limited Rs.1718.48 lacs (previous year Rs.577.50 lacs). Maximum amount due during the year Rs. 1718.48 lacs (previous year Rs.631.42 lacs).

SCHEDULE 10 - Current liabilities

Sundry creditors #		
Dues of small scale industrial undertakings (Refer Note 8)	314.48	229.28
Dues of other than small scale industrial undertakings	11696.83	9707.74
Interest accrued but not due on loans, deposits and deferred credits	60.64	16.01
	<u>12071.95</u>	<u>9953.03</u>

Sundry creditors do not include any amounts outstanding as on March 31, 2005 which are required to be credited to the Investor Education and Protection Fund.

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 11 - Provisions		
Proposed dividend	2287.73	1975.77
Provision for corporate dividend tax	320.85	258.21
Taxation (net of payments)	700.12	350.77
Provision for encashable leave salary	975.56	734.74
	<u>4284.26</u>	<u>3319.49</u>

SCHEDULE 12 - Deferred taxation

Deferred tax assets		
- Accrued expenses deductible on payment	1629.51	1282.95
- Voluntary retirement scheme	6.54	32.34
- Provision for doubtful debts/advances	976.84	875.38
	<u>2612.89</u>	<u>2190.67</u>
Deferred tax liabilities		
- Accelerated depreciation	983.97	918.81
- Capital gains	52.58	33.39
	<u>1036.55</u>	<u>952.20</u>

	For the year ended 31.3.2005	For the year ended 31.3.2004
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SCHEDULE 13 - Other income

Rent and hire charges (gross) from:		
- Subsidiary company	305.16	242.82
- Others	98.77	163.64
Interest (gross) from:		
- Subsidiary companies	128.92	90.08
- Debts, deposits, loans, etc.	120.60	186.39
Income (gross) from other long term investments:		
- Dividends from:		
- Subsidiary companies	-	5.28
- Others	49.32	64.21
- Interest	58.29	137.09
Dividends from other current investments	-	116.21
Profit on redemption/sale of other long term investments	372.65	564.35
Profit on sale of other current investments	236.23	-
Profit on sale of fixed assets	-	93.92
Liabilities no longer required, written back	1014.52	-
Provision on diminution in the value of investment written back	-	0.20
Provision for doubtful debts and advances written back	-	6.61
Export incentives	185.03	501.04
Sundries	398.42	394.67
	<u>2967.91</u>	<u>2566.51</u>
Tax deducted at source:		
Dividend from long term other investments	-	0.22
Interest income	52.41	41.56
Rent and hire charges	15.37	20.28
Sundries	0.16	0.61

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
SCHEDULE 14 - Raw and packing materials, manufactured and other goods		
Raw and packing materials consumed	15807.95	15536.08
Manufacturing charges paid to a subsidiary company for cigarettes manufactured on our behalf	2583.03	2076.55
Purchases for resale (including transferred from raw and packing materials)	7610.95	5635.22
Expenditure incurred on real estate stock development	9.29	102.25
Decrease/(increase) in work-in-process, finished goods and other goods		
Opening stock:		
- Work-in-process	79.61	58.83
- Finished goods - Cigarettes	3248.77	2451.72
- Cigars	46.12	17.65
- Other goods	325.56	449.52
- Real estate	396.40	294.15
	<u>4096.46</u>	<u>3271.87</u>
Closing stock:		
- Work-in-process	89.66	79.61
- Finished goods - Cigarettes	2880.80	3248.77
- Cigars	56.76	46.12
- Other goods	545.32	325.56
- Real estate	405.69	396.40
	<u>3978.23</u>	<u>4096.46</u>
	<u>118.23</u>	<u>(824.59)</u>
	<u>26129.45</u>	<u>22525.51</u>

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
SCHEDULE 15 - Manufacturing and other expenses		
Salaries, wages and bonus	4398.00	3131.65
Contribution to provident and other funds (including administrative charges)	269.32	235.45
Workmen and staff welfare expenses	503.03	455.47
Contribution to gratuity and superannuation fund	521.11	374.92
Consumption of stores and spare parts	18.35	29.32
Power and fuel	372.72	306.28
Repairs and maintenance - Buildings	169.90	95.83
- Machinery	196.25	183.92
- Others	188.70	172.94
Rent (including Rs. 62.24 lacs; previous year Rs. 90.04 lacs to a subsidiary company)	578.28	647.17
Rates and taxes	6456.64	6255.23
Insurance	224.77	235.08
Freight and cartage	773.15	676.21
Legal and professional expenses	1370.86	2850.28
Auditors' remuneration	64.69	58.04
Interest - Fixed loans	42.83	66.09
- Others	529.41	490.00
Cash discount	45.82	41.87
Commission paid to other than sole selling agents	89.84	76.49
Advertising and sales promotion	9896.06	10746.05
Selling and distribution expenses	1765.62	1766.93
Travelling and conveyance	1394.20	1447.54
Donations	194.24	56.79
Bill discounting charges	-	11.91
Bad debts and advances written off	3.98	0.02
Provision for doubtful debts and advances	462.01	-
Fixed assets written off	0.27	115.10
Loss on sale of fixed assets	45.36	-
Technical services fee and royalty	639.83	665.45
Loss on sale of other current investments	-	4.01
Miscellaneous expenses	2521.36	2085.23
	<u>33736.60</u>	<u>33281.27</u>
(a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery	135.30	119.49
(b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc.	14.64	11.83

SCHEDULE 16 – Notes to the accounts for the year ended March 31, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956.

i) Fixed assets and depreciation

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill, patents and trade marks and leasehold land is not amortised because, in view of the management, there is no diminution in their value.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:-

Items of machinery and equipment costing upto Rs. 5,000 each acquired upto December 16, 1993	95%
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Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986	SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets.
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ii) Investments

Long term investments are stated at cost net of provision for permanent diminution, if any. Current investments are stated at cost or fair value, whichever is lower.

iii) Inventories

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials and stores and spares is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon.

iv) Revenue recognition

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty and luxury tax, where applicable but exclusive of sales tax.

Income from investments is recognised on an accrual basis.

v) Retirement benefits

The Company has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund duly recognised by the Income-tax authorities. The funds are administered through trustees and the Company's contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

vi) Income-tax

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

vii) Proposed dividends

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

viii) Research and development expenditure

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

ix) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Current assets and current liabilities are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract and is taken to the profit and loss account. The exchange difference on such contracts i.e. difference between the exchange rate at the reporting / settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

	Rupees in lacs	Rupees in lacs
	For the year ended 31.3.2005	For the year ended 31.3.2004
2. REMUNERATION OF DIRECTORS		
a) Included in Schedule 15 are:		
Remuneration*	93.69	82.55
Commission	53.50	50.20
Sitting fees	10.20	3.75
	<u>157.39</u>	<u>136.50</u>
*excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.		
b) Computation of directors' commission and net profit in accordance with Section 198 of the Companies Act, 1956		
Profit before taxation	9994.98	7648.61
Add/(less):		
Directors' remuneration	157.39	136.50
Provision for diminution in value of other long term investments	-	(0.20)
Profit on redemption/sale of other long term investments (net)	(372.65)	(564.35)
Provision for doubtful debts and advances	462.01	(6.61)
	<u>10241.73</u>	<u>7213.95</u>
Maximum commission payable to the three working Directors @ 4% of the above profit	409.67	288.56
Restricted to	53.50	50.20

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
3. AUDITORS' REMUNERATION*		
As auditors		
Audit fee	24.00	23.00
Out of pocket expenses	2.47	2.91
In other capacity		
For limited review of unaudited financial results	20.01	17.82
For corporate governance, consolidated financial statements and other certification work	2.15	2.30
For tax audit	5.25	5.40
For management consultancy	5.86	1.62
For provident fund audit	1.01	0.81
For miscellaneous certificates	3.87	4.18
Out of pocket expenses	0.07	-
	<u>64.69</u>	<u>58.04</u>

* Current year figures are net of service tax of Rs.4.79 lacs for which the input tax credit is available.

4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT

Revenue expenditure	195.59	154.40
Capital expenditure	107.39	39.94

5. CONTINGENT LIABILITIES NOT PROVIDED FOR

a) Demands from excise, sales tax , income-tax and other authorities disputed by the Company	293.86	251.37
b) Claims against the Company, not acknowledged as debts	1.89	1.89
c) Undertaking given to a bank in respect of cash credit facilities granted to the subsidiary company- International Tobacco Company Limited upto the limit of Rs. 150 lacs which is secured by hypothecation of stocks of that company. The actual overdrawn balance as on March 31, 2005 was Rs. Nil; previous year Rs. Nil		
d) Cash security deposited on behalf of third parties in respect of excise duty	-	28.81
e) Guarantees given to a bank on behalf of third parties in respect of excise duty	-	98.01
f) Uncalled liability on shares partly paid	148.99	148.99

6. The following are the particulars of disputed dues on account of sales-tax that have not been deposited by the Company:

Name of the statute	Nature of the dues	Amount (Rs. lacs)	Period to which the amount relates	Forum where dispute is pending
Sales Tax Laws	Sales tax	0.58	1995-96, 2001-2002	Sales Tax Tribunal
		4.84	1998-99, 1999-2000, 2001-2002, 2002-2003	Commissioner
		2.20	1999-2000	Dy. Commissioner (Appeals)

Further, there are no dues of income-tax, wealth tax, customs duty, excise duty, service tax, and cess which have not been deposited on account of any disputes.

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7. The Company and its contract manufacturer have received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Company does not consider these to constitute a liability of any kind.

8. Small scale undertakings have been identified by the Company on the basis of information provided to it by its suppliers. The names of such undertakings to whom dues are outstanding for more than 30 days as at March 31, 2005 are as under:

- i) Studio Printall (N.Delhi) Pvt.Ltd.
- ii) Perfect Engineering Works
- iii) S&S Packaging
- iv) Triwal Boards Pvt. Ltd.
- v) Perfect Industries
- vi) Radix Microsystems
- vii) Packfine Corrugating Industries
- viii) Quality Tape Manufacturers
- ix) Tapan Engineering Works
- x) Arvind Packing Industries
- xi) Brijbasi Art Press Limited
- xii) Hitkari Multifilters Limited
- xiii) Image India Private Limited
- xiv) New Colour Screens Pvt.Ltd.
- xv) Deko Industrial Works
- xvi) Excellent Manufacturing Co.
- xvii) Raghushree Packaging Pvt. Ltd.
- xviii) Airvent Pvt Ltd.
- xix) Thumbe Engineering Services
- xx) Amla Engineering Works

9. The Company has taken on lease plant and machinery, motor vehicles and office equipments of an aggregate cost of Rs.212.21 lacs (previous year Rs.436.72 lacs) with future obligations by way of lease rentals amounting to Rs.4.33 lacs (previous year Rs.28.15 lacs). Lease rentals charged to the profit and loss account during the year is Rs.23.55 lacs (previous year Rs.57.84 lacs).

The Company has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15.

The Company, pursuant to the contract manufacturing arrangement with its wholly owned subsidiary company International Tobacco Company Limited, has given to and taken from it certain plant and machinery and equipments for use in its manufacturing operations. Hire charges payable in respect thereof have been charged as rent in Schedule 15 and those receivable have been accrued as income in Schedule 13.

The Company has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges receivable in respect thereof have been accrued as income in Schedule 13.

10. Exchange loss included in the profit and loss account for the year is Rs.18.41 lacs (previous year Rs. 46.38 lacs).

11. During the year, in view of revised Accounting Standard (AS) 11 "The Effects of Changes in Foreign Exchange Rates (Revised 2003)" issued by the Institute of Chartered Accountants of India, the Company has recognised the exchange differences attributable to liability incurred during the year in relation to fixed assets acquired within India, in the profit and loss account. As a result of this change, profit before tax for the year and gross block of fixed assets as at the year end are higher by Rs.56.38 lacs.

12. Related party disclosures under Accounting Standard 18

(A) Names of related parties and nature of related party relationships:

(a) Subsidiary companies:

International Tobacco Company Limited
Chase Investments Limited
City Leasing and Finance Company Limited
Manhattan Credits and Finance Limited
Kashyap Metal and Allied Industries Limited
Unique Space Developers Limited

(b) Associates:

Philip Morris International Finance Corporation, of which the Company is an associate.
Success Principles India Limited, an associate of the Company.

(c) Key management personnel:

Mr. K.K.Modi	President and Managing Director
Mr. Lalit Kumar Modi	Executive Director
Mr. Samir Kumar Modi	Executive Director
Mr. S.V.Shanbhag	Whole-time Director

(d) Enterprises over which key management personnel and their relatives are able to exercise significant influence:

Modi Entertainment Limited
Modicare Limited
Modern Homecare Products Limited
K.K.Modi Investment & Financial Services Private Limited
Beacon Travels Private Limited
Modipon Limited
Assam Cigarette Company Private Limited
R.C. Tobacco Private Limited
HMA Udyog Private Limited
Kaushambi Investment & Leasing Company Private Limited
Bina Fashion N Food Private Limited
Modicare Foundation
Modi Apollo International Group Private Limited
Integrated Technology Solutions Private Limited
Priyal Hitay Nidhi
Colorbar Cosmetics Private Ltd.
Modi Innovative Education Society
Gujarmal Modi Science Foundation
ME Fashion India Private Ltd.

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(B) Disclosure of transactions between the Company and related parties and the status of outstanding balances as at the year end:

Rupees in lacs

Nature of transactions	Subsidiary companies		Associates		Key management personnel		Enterprises over which significant influence exists	
	2005	2004	2005	2004	2005	2004	2005	2004
Sale of goods	48.32	120.50	-	-	-	-	38.92	103.79
Purchase of goods/services	118.04	103.15	-	-	-	-	416.98#	562.60#
Purchase of fixed assets	-	-	-	-	-	-	1.48	0.71
Sale of fixed assets	-	0.59	-	-	-	-	-	-
DEPB license purchased	-	10.84	-	-	-	-	-	-
Loans given								
- Kashyap Metal and Allied Industries Ltd.	184.50	80.50	-	-	-	-	-	-
Deposits received back	-	-	-	-	-	-	90.00	-
Deposits refunded	-	-	-	-	-	-	2.82	-
Dividend received	-	5.28	-	-	-	-	-	-
Interest income	128.92	90.08	-	-	-	-	4.87	8.30
Rent and hire charges received	305.16	242.82	-	-	0.06	0.13	76.14	161.36
Manufacturing charges paid								
- International Tobacco Company Ltd.	2583.03	2076.55	-	-	-	-	-	-
Rent and hire charges paid	62.24	90.04	-	-	-	-	21.53	25.58
Advertisement charges paid	-	-	-	-	-	-	-	116.37
Payments for employees on deputation	6.46	11.95	-	-	-	-	64.84	63.29
Donation given	-	-	-	-	-	-	111.25	21.00
Expenses recovered	52.86	9.47	-	-	0.53	0.53	6.88	11.27
Expenses reimbursed	637.44*	21028.68*	-	-	-	-	7.86	0.57
Dividend payment (gross)								
- Philip Morris International Finance Corp.	-	-	709.97	635.24	-	-	-	-
Managerial remuneration##	-	-	-	-	147.19	132.75	-	-
Amounts written back	-	-	-	-	-	-	462.55	-
Provision for doubtful advances	-	-	-	-	-	-	462.55	-
Balance outstanding as at the year end								
- Loans and advances	3180.94	1850.53	-	-	1.40	0.06	2762.71**	2452.50**
- Sundry creditors	-	-	-	-	2.83	-	10.73	44.24
- Guarantees/undertakings given to banks	150.00	150.00	-	-	-	-	-	98.01

* comprising reimbursements to wholly owned subsidiary, International Tobacco Company Limited for payments made by them for and on behalf of the Company under the contract manufacturing arrangement, out of the funds made available by the Company. Previous year figure included reimbursements for excise duty payments for part of the year, which are now directly paid by the Company and hence not included.

** includes Rs.2732.64 lacs (previous year Rs.2270.09 lacs) provided for as doubtful advances.

includes Rs.384.55 lacs (previous year Rs.541.39 lacs) from Beacon Travels Private Ltd.

excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

13. Segment reporting disclosures under Accounting Standard 17

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Company's primary business segments are (a) Cigarette and tobacco products; and (b) Tea and related products.

(B) Geographical segments:

Since the Company's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

Financial information about the primary business segments is presented in the table below:

Rupees in lacs

	Cigarette and tobacco products	Tea and related products	Total	Cigarette and tobacco products	Tea and related products	Total
	For the year ended March 31, 2005			For the year ended March 31, 2004		
1. Segment revenue						
- External sales (gross)	125336.14	4233.66	129569.80	114295.57	3356.92	117652.49
- Less : Excise duty	61274.16	-	61274.16	55187.50	-	55187.50
- Net sales	64061.98	4233.66	68295.64	59108.07	3356.92	62464.99
- Other income	2029.20	62.16	2091.36	1446.38	28.02	1474.40
- Total	66091.18	4295.82	70387.00	60554.45	3384.94	63939.39
- Unallocable income			876.55			1092.11
Total revenue			71263.55			65031.50
2. Segment result	9486.08	(104.39)	9381.69	7261.05	(443.92)	6817.13
- Unallocable income net of unallocable expenses			667.31			1019.30
Profit before interest and taxation			10049.00			7836.43
- Interest expenses and bill discounting charges			(54.02)			(187.82)
- Provision for income-tax			(3635.13)			(2431.01)
Profit after taxation			6359.85			5217.60
3. Other information	As at March 31, 2005			As at March 31, 2004		
a) Segment assets	28684.60	1264.07	29948.67	24000.60	1119.18	25119.78
- Unallocable assets/investments			25332.17			19171.31
Total assets			55280.84			44291.09
b) Segment liabilities	12657.06	212.61	12869.67	10201.52	358.57	10560.09
- Share capital and reserves			32701.03			28949.76
- Unallocable liabilities			9710.14			4781.24
Total liabilities			55280.84			44291.09
	For the year ended March 31, 2005			For the year ended March 31, 2004		
c) Capital expenditure including capital work in progress	5873.80	45.45	5919.25	2155.97	353.26	2509.23
d) Depreciation	1599.59	55.69	1655.28	945.86	48.96	994.82
e) Non cash expenditure other than depreciation	690.00	12.83	702.83	125.43	10.38	135.81

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Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 1 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expenses only include items directly attributable to the segment. They do not include investment income, interest income from inter-corporate deposits and loans given, dividend income, profit or loss on sale of investments, provision for diminution in value of investments, interest expense (excluding those relating to segments) and bill discounting charges, donations and provision for taxation (both current and deferred). Since the corporate office of the Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments, inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (both current and deferred).

	For the year ended 31.3.2005	For the year ended 31.3.2004
--	------------------------------------	------------------------------------

14. Earnings per share has been computed as under:

(a) Net profit as per profit and loss account (Rs.lacs)	6359.85	5217.60
(b) Weighted average number of equity shares outstanding	1,03,98,784	1,03,98,784
(c) Basic and diluted earnings per share -Rupees (face value of share-Rs.10 each)	61.16	50.18

15. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPHS 3,4C AND 4D OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956.

	For the year ended 31.3.2005	For the year ended 31.3.2004
--	------------------------------------	------------------------------------

	Unit	Qty.	Rs. in lacs	Qty.	Rs. in lacs
I. Class of Goods, Capacity and Production					
Class of goods manufactured					
- Cigarettes					
Capacity (per annum)					
- Licensed	Million	18750*		18750*	
- Installed (on a single shift basis)	Million	3377		3268	
Production	Million	4736		4876	
Cigarettes manufactured by the subsidiary company on behalf of the Company	Million	7380		7161	

*Including 25% admissible production over licensed capacity

Installed capacity has been certified by a director but has not been verified by the auditors as this is a technical matter.

			For the year ended 31.3.2005		For the year ended 31.3.2004
--	--	--	------------------------------------	--	------------------------------------

	Unit	Qty.	Rs. in lacs	Qty.	Rs. in lacs
II. Turnover and stocks					
a) Particulars of sales (gross)*					
- Cigarettes	Million	12195	119588.14	11867	110229.94
- Unmanufactured tobacco	Tonne	8036	5241.38	5108	3951.71
- Cigars	'000 Pcs	1034	177.29	430	78.08
- Other goods			4562.99		3392.76
b) Details of stock-in-trade					
i) Opening stocks					
- Cigarettes	Million	490	3248.77	357	2451.72
- Cigars	'000 Pcs	931	46.12	126	17.65
- Real estate			396.40		294.15
- Other goods			325.56		449.52
ii) Closing stocks					
- Cigarettes	Million	392	2880.80	490	3248.77
- Cigars	'000 Pcs	993	56.76	931	46.12
- Real estate			405.69		396.40
- Other goods			545.32		325.56

* Includes sales to a subsidiary Rs.39.42 lacs (previous year Rs.110.94 lacs)

III. Raw and packing materials consumed					
Unmanufactured tobacco	Tonne	12531	7040.33	11443	6636.44
Cigarette paper	Bobbin	126576	603.96	126384	596.64
Cardboard (shells, slides and others)	Tonne	4409	3662.57	4727	3722.54
Filter rods	Million	1416	1500.57	1462	1611.11
Aluminium foil/Metallised paper	Million Meter	175	883.07	179	885.63
Cellulose paper	Tonne	286	535.57	285	533.29
Miscellaneous			1581.88		1550.43
			15807.95		15536.08

IV. Purchases for resale					
Unmanufactured tobacco	Tonne	8036	4542.84	5108	3507.20
Cigars	'000 Pcs	1099	113.60	1235	75.33
Other goods-Tea, etc. (including packing materials and processing charges)			2954.51		2052.69
			7610.95		5635.22

V. Value of imported and indigenous raw and packing materials and spare parts					
		% of total consumption	Rs. in lacs	% of total consumption	Rs. in lacs
(A) Raw and packing materials					
i) Imported		5.95	940.04	6.30	979.17
ii) Indigenous		94.05	14867.91	93.70	14556.91
		100.00	15807.95	100.00	15536.08
(B) Spare parts					
i) Imported		43.15	58.38	35.17	42.02
ii) Indigenous		56.85	76.92	64.83	77.47
		100.00	135.30	100.00	119.49

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Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
VI. Earnings in foreign exchange		
a) Export of goods on F.O.B. basis	7253.33	6950.37
b) Interest	1.15	2.73
c) Others including freight, etc.	132.72	283.17
	<u>7387.20</u>	<u>7236.27</u>
VII. Value of imports on C.I.F. basis (including those in transit)		
i) Raw materials	917.13	750.51
ii) Components and spare parts	72.93	57.48
iii) Capital goods	2884.39	903.30
iv) Purchases for resale - cigars, etc.	64.16	42.68
	<u>3938.61</u>	<u>1753.97</u>
VIII. Expenditure in foreign currencies		
Fees for technical services (net of tax)	575.95	599.03
Professional /consultancy fees (net of tax)	386.30	1214.96
Interest (net of tax)	109.47	51.41
Others	336.06	359.09
	<u>1407.78</u>	<u>2224.49</u>
IX. Dividends remittance to non-resident shareholders in foreign currency		
Amount of dividends	709.97	635.24
Number of non-resident shareholders to whom remittances made	1	1
Number of shares on which remittances made	37,36,704	37,36,704
Year for which dividends remitted (year ended)	31.3.2004	31.3.2003

16. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman	Directors
S.V. SHANBHAG Whole Time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President	
R.N. AGARWAL Ex. Vice President (Finance)	A.R. ANAND Chief Executive (International)	LALIT BHASIN O.P. VAISH ANUP N. KOTHARI	
	R.JOSHI Company Secretary		
New Delhi: 30th June, 2005			

Additional Information as required under Part IV of Schedule VI to the Companies Act, 1956.

Balance Sheet Abstract and Company's General Business Profile:

I. Registration Details	
Registration Number	8587
State Code	11
Balance Sheet Date	31.3.2005
II. Capital Raised during the year (Amount in Rs. Thousands)	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)	
Total Liabilities	5528084
Total Assets	5528084
Source of Funds:	
Paid-up Capital	103988
Reserves and Surplus	3166115
Secured Loans	592022
Unsecured Loans	30338
Applications of Funds:	
Net Fixed Assets	1292010
Investments	1991578
Net Current Assets	608875
Misc. Expenditure	Nil
Accumulated Losses	Nil
IV. Performance of the Company (Amount in Rs. Thousands)	
Turnover	13253771
Total Expenditure	12254273
Profit/(Loss) Before Tax	999498
Profit/(Loss) After Tax	635985
Earning Per Share (Rs.)	61.16
Dividend Rate (%)	220
V. Generic Names of Three Principal Products/Services of the Company (as per monetary terms)	
Item Code No.(ITC Code)	2402.20
Product Description	Cigarettes containing tobacco
Item Code No. (ITC Code)	2401.20
Product Description	Unmanufactured tobacco
Item Code No. (ITC Code)	902.30
Product Description	Tea black in packets

L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman	Directors
S.V. SHANBHAG Whole Time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President	
R.N. AGARWAL Ex. Vice President (Finance)	A.R. ANAND Chief Executive (International)	LALIT BHASIN O.P. VAISH ANUP N. KOTHARI	
	R.JOSHI Company Secretary		
New Delhi: 30th June, 2005			

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Statement pursuant to Section 212 of the Companies Act, 1956

A. Holding Company's interest in the subsidiaries at the close of the respective financial years.

Name of the Subsidiary	Financial Year ended	Extent of interest
1. International Tobacco Company Limited	31.3.2005	The entire issued share capital of 100000 Equity Shares of Rs. 100 each fully paid.
2. Chase Investments Limited	31.3.2005	The entire issued share capital of 198500 Equity Shares of Rs. 100 each of which 40010 are fully paid up and 158490 are Rs.50 paid up.
3. City Leasing and Finance Company Limited	31.3.2005	The entire issued share capital of 1950000 Equity Shares of Rs. 10 each of which 400020 are fully paid up and 1549980 are Rs. 5.50 paid up.
4. Manhattan Credits and Finance Limited	31.3.2005	The entire issued share capital of 1950000 Equity Shares of Rs. 10 each fully paid.
5. Kashyap Metal and Allied Industries Limited	31.3.2005	Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.)
6. Unique Space Developers Limited	31.3.2005	Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.)

B. Net aggregate amount of profits/(losses) of the subsidiaries not dealt with in the Holding Company's accounts.

Name of the Subsidiary	For Financial Year ended 31.3.2005 Rs. in lacs	For Previous Financial Years Rs. in lacs
1. International Tobacco Company Limited	137.11	609.09
2. Chase Investments Limited	30.18	106.10
3. City Leasing and Finance Company Limited	28.15	37.47
4. Manhattan Credits and Finance Limited	14.60	22.61
5. Kashyap Metal and Allied Industries Limited	Not Applicable	Not Applicable
6. Unique Space Developers Limited	Not Applicable	Not Applicable

C. Net aggregate amount of profits/(losses) of the subsidiaries dealt with in the Holding Company's accounts, being the dividend received.

Name of the Subsidiary	For Financial Year ended 31.3.2005 Rs. in lacs	For Previous Financial Years Rs. in lacs
1. International Tobacco Company Limited	Nil	Nil
2. Chase Investments Limited	Nil	8.16
3. City Leasing and Finance Company Limited	Nil	8.29
4. Manhattan Credits and Finance Limited	Nil	7.20
5. Kashyap Metal and Allied Industries Limited	Not Applicable	Not Applicable
6. Unique Space Developers Limited	Not Applicable	Not Applicable

L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman	Directors
S.V. SHANBHAG Whole Time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President	
R.N. AGARWAL Ex. Vice President (Finance)	A.R. ANAND Chief Executive (International)	LALIT BHASIN O.P. VAISH ANUP N. KOTHARI	
	R.JOSHI Company Secretary		
New Delhi: 30th June, 2005			

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF GODFREY PHILLIPS INDIA LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GODFREY PHILLIPS INDIA LIMITED, ITS SUBSIDIARIES AND AN ASSOCIATE.

We have examined the attached consolidated balance sheet of Godfrey Phillips India Limited, its subsidiaries and an associate (the Group), as at March 31, 2005 and also the consolidated profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Godfrey Phillips India Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

- We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
- We did not audit the financial statements of subsidiaries viz., Chase Investments Limited, City Leasing and Finance Company Limited, Manhattan Credits and Finance Limited, Kashyap Metal and Allied Industries Limited and Unique Space Developers Limited whose financial statements reflect total assets of Rs.2183.70 lacs as at March 31, 2005 and total revenues of Rs.86.32 lacs for the year ended on that date (these figures include intragroup balances and intragroup transactions eliminated on consolidation) and an associate viz. Success Principles India Limited whose financial statements reflect the Group's share of profit upto March 31, 2005 of Rs.28.37 lacs and the Group's share of profit of Rs.1.64 lacs for the year ended on that date as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries and an associate is based solely on the report of the other auditors.
- We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Godfrey Phillips India Limited, its subsidiaries and an associate included in the consolidated financial statements.
- On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Godfrey Phillips India Limited, its subsidiaries, and an associate, in our opinion, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - in the case of the consolidated balance sheet of the consolidated state of affairs of Godfrey Phillips India Limited, its subsidiaries and an associate as at March 31, 2005;
 - in the case of the consolidated profit and loss account of the consolidated results of operations of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date; and
 - in the case of the consolidated cash flow statement of the cash flows of Godfrey Phillips India Limited, its subsidiaries and an associate.

For A.F. FERGUSON & CO.
Chartered Accountants

A.K. MAHINDRA
Partner
(Membership No. 10296)

New Delhi : 30th June, 2005

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Consolidated balance sheet as at March 31, 2005

Rupees in lacs

	Schedule Number	As at 31.3.2005	As at 31.3.2004
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	1	1039.88	1039.88
Reserves and surplus	2	32254.32	28347.51
		33294.20	29387.39
Minority interests			
		6.43	6.87
Loan funds			
Secured	3	5920.22	537.19
Unsecured		187.77	1208.78
Deferred credits		115.61	322.84
		6223.60	2068.81
TOTAL		39524.23	31463.07
APPLICATION OF FUNDS			
Fixed assets			
Gross block	4	24281.28	16517.00
Less: Depreciation		9677.23	8046.74
Net block		14604.05	8470.26
Capital work-in-progress and advances on capital account		2001.94	2549.91
		16605.99	11020.17
Investments			
	5	19873.60	14260.28
Deferred taxation			
Deferred tax assets	12	2655.31	2253.26
Less: Deferred tax liabilities		1109.39	1043.28
		1545.92	1209.98
Current assets, loans and advances			
Income accrued on investments		12.91	45.65
Inventories	6	12992.11	12709.08
Sundry debtors	7	251.19	1260.13
Cash and bank balances	8	546.71	770.39
Loans and advances	9	4795.64	3808.89
		18598.56	18594.14
Less:			
Current liabilities and provisions			
Current liabilities	10	12629.74	10106.64
Provisions	11	4470.10	3514.86
		17099.84	13621.50
Net current assets		1498.72	4972.64
TOTAL		39524.23	31463.07
Notes to the consolidated accounts	16		

Per our report attached
For A.F. FERGUSON & CO.
Chartered Accountants

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

A.K. MAHINDRA
Partner
(Membership No. 10296)

R.N. AGARWAL
Ex. Vice President (Finance)

R. JOSHI
Company Secretary

SAMIR KUMAR MODI
Executive Director

S. SERU
Chief Executive (Domestic)

A.R. ANAND
Chief Executive (International)

R.A. SHAH
Chairman

K.K. MODI
President

LALIT BHASIN
O.P. VAISH
ANUP N. KOTHARI

Directors

Consolidated profit and loss account for the year ended March 31, 2005

Rupees in lacs

	Schedule Number	For the year ended 31.3.2005	For the year ended 31.3.2004
INCOME			
Gross sales		129530.38	117541.55
Less: Excise duty		61274.16	55187.50
Net sales		68256.22	62354.05
Other income	13	2640.03	2430.80
		70896.25	64784.85
EXPENSES			
Raw and packing materials, manufactured and other goods	14	23499.29	20357.32
Manufacturing and other expenses	15	35552.92	34902.95
Depreciation	4	1855.88	1178.97
(Decrease)/ Increase in excise duty on finished goods		(252.76)	581.29
		60655.33	57020.53
Profit before taxation		10240.92	7764.32
Provision for taxation - current		4063.82	2947.80
- deferred tax credit		(335.94)	(476.93)
Profit after taxation		6513.04	5293.45
Provision for taxation for prior years written back		0.27	43.56
Profit after taxation before share of results of an associate and minority interests		6513.31	5337.01
Share of net profit of an associate		1.64	1.51
Profit after taxation before minority interests		6514.95	5338.52
Minority interests		(0.44)	(0.81)
Net profit		6515.39	5339.33
Balance brought forward from previous year		19149.33	17244.68
Available for appropriation		25664.72	22584.01
APPROPRIATIONS			
Proposed dividend		2287.73	1975.77
Corporate dividend tax		320.85	258.91
Transferred to general reserve		1400.00	1200.00
Surplus carried to consolidated balance sheet		21656.14	19149.33
		25664.72	22584.01
Basic and diluted earnings per share (Face value of share - Rs.10 each)		Rs. 62.66	Rs.51.35
Notes to the consolidated accounts	16		

Per our report attached to the
consolidated balance sheet
For A.F. FERGUSON & CO.
Chartered Accountants

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

A.K. MAHINDRA
Partner
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O.P. VAISH
ANUP N. KOTHARI

Directors

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Consolidated cash flow statement for the year ended March 31, 2005

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	10,240.92	7,764.32
Adjustments for:		
Depreciation	1,855.88	1,178.97
Interest income from debts, deposits, loans, etc.	(123.34)	(221.31)
Dividends from other long term investments	(57.27)	(70.80)
Dividends from other current investments	-	(116.21)
Interest income from other long term investments	(58.29)	(137.09)
Profit on redemption/sale of other long term investments	(427.75)	(673.83)
(Profit)/loss on sale of other current investments	(236.23)	4.01
Foreign exchange (gain)/loss on foreign currency bank balance	(0.12)	17.35
Exchange gain on foreign currency borrowings	(56.38)	-
Provision for wealth-tax	15.00	12.00
Interest - fixed loans	42.83	66.09
- others	533.49	490.61
Bill discounting charges	-	11.91
Fixed assets written off	36.19	118.32
Loss/(Profit) on sale of fixed assets	45.04	(92.22)
Provision made/(written back) for diminution in the value of other long term investments	0.45	(0.51)
	<u>1,569.50</u>	<u>587.29</u>
Operating profit before working capital changes	11,810.42	8,351.61
Adjustments for:		
Trade and other receivables	141.34	(703.18)
Inventories	(283.03)	(2,141.52)
Trade and other payables	2,215.08	1,339.71
	<u>2,073.39</u>	<u>(1,504.99)</u>
Cash generated from operations	13,883.81	6,846.62
Interest received	112.67	68.40
Dividends received	7.95	6.77
Purchase of investments*	(199.98)	(149.51)
Proceeds from sale of investments*	85.28	255.38
Direct taxes paid	(3,859.28)	(3,749.36)
Interest paid	(1.36)	-
	<u>(3,854.72)</u>	<u>(3,568.32)</u>
Net cash from operating activities	10,029.09	3,278.30

Consolidated cash flow statement (Continued)

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(7,586.08)	(2,962.86)
Proceeds from sale of fixed assets	30.45	185.36
Purchase of investments	(87,166.40)	(62,593.11)
Proceeds from sale of investments	82,332.96	64,315.71
Dividends from long term other investments	53.18	63.37
Dividends from other current investments	-	116.21
Interest received from other long term investments	87.16	128.46
Deposits made	(650.00)	(500.00)
Deposits received back	550.00	450.00
Interest received	90.33	89.95
Net cash used in investing activities	(12,258.40)	(706.91)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan availed	4,598.00	-
Repayment of fixed deposits	(138.22)	(109.91)
Repayment of long term borrowings	(232.48)	(220.48)
Proceeds from/ (repayment of) working capital borrowings	114.61	(921.52)
Bill discounting charges paid	-	(11.91)
Interest paid	(107.95)	(204.11)
Dividend paid	(1,970.24)	(1,761.03)
Corporate dividend tax paid	(258.21)	(227.20)
Net cash from/ (used) in financing activities	2,005.51	(3,456.16)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(223.80)	(884.77)
Opening cash and cash equivalents		
-Cash and bank balances	770.39	1,672.51
Closing cash and cash equivalents		
- Cash and bank balances	546.71	770.39
- Effect of exchange rate changes on foreign currency bank balance	(0.12)	17.35
	<u>546.59</u>	<u>787.74</u>

*By the subsidiary companies engaged in the business of investments

For and on behalf of the Board of Directors

Per our report attached to the consolidated balance sheet For A.F. FERGUSON & CO. Chartered Accountants	L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman
	S.V. SHANBHAG Whole-time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President
A.K. MAHINDRA Partner (Membership No. 10296)	R.N. AGARWAL Ex. Vice President (Finance)	A.R. ANAND Chief Executive (International)	LALIT BHASIN O.P. VAISH ANUP N. KOTHARI
New Delhi : 30th June, 2005	R. JOSHI Company Secretary		

Directors

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Schedules 1 to 16 annexed to and forming part of the consolidated accounts for the year ended March 31, 2005

SCHEDULE 1 - Share capital

AUTHORISED

60,000 Preference shares of Rs. 100 each
2,44,00,000 Equity shares of Rs. 10 each

	As at 31.3.2005	As at 31.3.2004
	60.00	60.00
	2440.00	2440.00
	<u>2500.00</u>	<u>2500.00</u>

ISSUED, SUBSCRIBED AND PAID UP

1,03,98,784 Equity shares of Rs.10
each fully paid up

	<u>1039.88</u>	<u>1039.88</u>
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Of the above equity shares

- (i) 86,82,578 shares are allotted as fully paid up as bonus shares by capitalisation of general reserves Rs.311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs.519.94 lacs.
(ii) 83,490 shares are allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation.

SCHEDULE 2 - Reserves and surplus

REVALUATION RESERVE

At commencement of the year

236.16	236.16
--------	--------

CAPITAL REDEMPTION RESERVE

At commencement of the year

30.13	30.13
-------	-------

GENERAL RESERVE

At commencement of the year

8931.89	7731.89
---------	---------

Add: Amount transferred from
profit and loss account

1400.00	10331.89	1200.00	8931.89
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PROFIT AND LOSS ACCOUNT

21656.14	19149.33
<u>32254.32</u>	<u>28347.51</u>

SCHEDULE 3 - Loan funds

SECURED

From banks:

- Term loan from a bank to be secured by way
of an exclusive charge over specific plant and
machinery

4391.00	-
---------	---

- Cash credit and working capital demand
loan secured against hypothecation of
stocks and book debts and second charge
on certain immovable properties of the group

1529.22	5920.22	537.19	537.19
---------	---------	--------	--------

UNSECURED

From a bank

-	877.42
---	--------

Fixed deposits (payable within 12 months

Rs.181.19 lacs; Previous year Rs.145.84 lacs)

181.19	319.41
--------	--------

Interest accrued and due on above

6.58	187.77	11.95	1208.78
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DEFERRED CREDITS

From a supplier against import of machineries
(payable within 12 months Rs.115.61 lacs;
Previous year Rs.215.22 lacs)

115.61	322.84
<u>6223.60</u>	<u>2068.81</u>

SCHEDULE 4 - Fixed assets

Rupees in lacs

	GROSS BLOCK (AT COST)				DEPRECIATION			NET BLOCK	
	As at 31.3.2004	Addi- tions	Deduc- tions	As at 31.3.2005	As at 31.3.2004	For the year	On deductions	As at 31.3.2005	As at 31.3.2004
Goodwill	166.69*	-	-	166.69*	-	-	-	166.69	166.69
Patents and trade marks	0.51	-	-	0.51	-	-	-	0.51	0.51
Land (leasehold)	735.68	-	-	735.68#	-	-	-	735.68	735.68
Land (freehold)	393.43	-	-	393.43	-	-	-	393.43	393.43
Buildings	1320.97	1107.91	-	2428.88**	264.91	63.66	-	328.57	2100.31
Plant and machinery	10862.43	6418.05	107.39	17173.09	6589.24	1472.29	66.36	7995.17	9177.92
Electrical installation and equipments	145.28	105.56	1.00	249.84	52.92	15.49	0.90	67.51	182.33
Computers and information technology equipments	836.64	160.04	138.65	858.03	452.44	124.52	113.85	463.11	394.92
Furniture, fixtures and office equipments	1076.21	125.30	23.84	1177.67	417.94	78.02	10.01	485.95	691.72
Motor vehicles	979.16	184.49	66.19	1097.46	269.29	101.90	34.27	336.92	760.54
Total	16517.00	8101.35	337.07	24281.28	8046.74	1855.88	225.39	9677.23	14604.05
Previous year	15324.64	1534.38	342.02	16517.00	6993.26	1178.97	125.49	8046.74	8470.26
Capital work-in-progress and advances on capital account								2001.94	2549.91
								16605.99	11020.17

* Includes Rs.165.49 lacs on consolidation.

** Includes Rs. 0.02 lac (previous year 0.02 lac) being the cost of shares in co-operative societies, Rs.4.20 lacs (previous year Rs.4.20 lacs) towards cost of a flat in a co-operative society and Rs.125.90 lacs (previous year Rs.125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Group.

Includes Rs.448.89 lacs (previous year Rs.448.89 lacs) in respect of lands, title for which are yet to be registered in the name of the Group.

1. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs.725.77 lacs; Previous year Rs.3543.39 lacs.

2. Additions for the year are net of exchange gain (net) of Rs.128.85 lacs (previous year-include exchange loss of Rs. 30.77 lacs) on account of fluctuations in the rate of exchange including decrease/increase in rupee liability of long term foreign currency loan.

3. Additions for the year include Rs.92.68 lacs (previous year Rs. Nil) towards the amount of borrowing costs capitalised.

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments		
a) LONG TERM (At cost)		
TRADE INVESTMENT - QUOTED		
MOI Engineering Limited 3,500 Equity shares of Rs.10 each fully paid up	0.25	0.25
OTHER INVESTMENTS - QUOTED		
Konkan Railway Corporation Limited Nil (Previous year 50,000) 10.5% Tax-Free Secured Redeemable Non-convertible Bonds of Rs.1000 each	-	475.50
Indian Railway Finance Corporation Limited Nil (Previous year 60,000) 10.5% Secured Redeemable Non-convertible Bonds of Rs.1000 each	-	606.30
Unit Trust of India 3,83,900 6.75% Tax Free US64 Bonds of Rs.100 each	383.90	383.90
Nestle India Limited 93 Equity shares of Rs.10 each fully paid up	0.07	0.07
Smithkline Beecham Consumer Healthcare Limited 320 Equity shares of Rs.10 each fully paid up	0.38	0.38
GTC Industries Limited 100 Equity shares of Rs.10 each fully paid up	0.01	0.01
VST Industries Limited 100 Equity shares of Rs.10 each fully paid up	0.11	0.11
Hindustan Lever Limited 290 Equity shares of Re.1 each fully paid up	0.07	0.07
HDFC Bank Limited 21,000 (Previous year 28,200) Equity shares of Rs.10 each fully paid up	2.10	2.82
Oriental Bank of Commerce 2,000 Equity shares of Rs.10 each fully paid up	1.20	1.20
Bank of Baroda 100 Equity shares of Rs.10 each fully paid up	0.85	0.85
State Bank of Travancore 1,405 Equity shares of Rs.100 each fully paid up	8.43	8.43
Bank of India 8,000 Equity shares of Rs.10 each fully paid up	3.60	3.60
Corporation Bank 400 Equity shares of Rs.10 each fully paid up	0.32	0.32
Punjab Communications Limited 3,700 Equity shares of Rs.10 each fully paid up	9.25	9.25
Less: Provision for diminution in the value of investment	7.80	7.35
Narang Industries Limited 40,000 Equity shares of Rs.10 each fully paid up	4.00	4.00
Circassia Pacific Finance Limited 1,00,000 Equity shares of Rs.10 each fully paid up	10.00	10.00
Less: Provision for diminution in the value of investment	2.25	2.25

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments (Continued)		
Biocon Limited 200 Equity shares of Rs. 5 each fully paid up	0.63	0.63
Indraprastha Gas Limited 600 Equity shares of Rs. 10 each fully paid up	0.29	0.29
Maruti Udyog Limited 950 Equity shares of Rs. 5 each fully paid up	1.19	1.19
Patni Computer Systems Limited 350 Equity shares of Rs. 2 each fully paid up	0.80	0.80
Power Trading Corporation Limited 1,800 Equity shares of Rs. 10 each fully paid up	0.29	0.29
Petronet LNG Limited Nil (Previous year 52,000) Equity shares of Rs. 10 each fully paid up	-	7.80
Bharti Shipyard Limited 155 Equity shares of Rs. 10 each fully paid up	0.10	-
Deccan Chronicle Holding Limited 832 Equity shares of Rs. 10 each fully paid up	1.35	-
Dena Bank 9,104 Equity shares of Rs. 10 each fully paid up	2.45	-
Emami Limited 2,200 Equity shares of Rs. 2 each fully paid up	1.54	-
Indoco Remedies Limited 82 Equity shares of Rs.10 each fully paid up	0.20	-
Jet Airways Limited 321 Equity shares of Rs. 10 each fully paid up	3.54	-
NTPC Limited 8,047 Equity shares of Rs.10 each fully paid up	5.93	-
Punjab National Bank 376 Equity shares of Rs. 10 each fully paid up	1.46	-
Reliance Industries Limited 10 Equity shares of Rs. 10 each fully paid up	0.05	-
Steel Authority of India Limited 8,000 Equity shares of Rs. 10 each fully paid up	4.72	-
Tata Consultancy Services Limited 165 Equity shares of Re. 1 each fully paid up	1.41	-
UTV Software Communication Limited 347 Equity shares of Rs. 10 each fully paid up	0.45	-
Glenmark Pharmaceutical Limited 4,500 Equity shares of Rs. 2 each fully paid up	13.73	-
ONGC Limited 948 Equity shares of Rs. 10 each fully paid up	7.11	-

GODFREY PHILLIPS INDIA LIMITED

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments (Continued)		
OTHER INVESTMENTS - UNQUOTED		
Associate:		
Success Principles India Limited		
1,99,673 Equity shares of Rs. 10 each fully paid up		
Cost of acquisition (net of capital reserve of Rs.1.67 lacs)	19.97	19.97
Add: Group's share of profits upto 31.3.2005	28.37	26.73
	48.34	46.70
Others:		
Modi Entertainers Networks Private Limited		
1,000 Equity shares of Rs.10 each fully paid up	0.10	0.10
Indo Euro Investment Company Limited		
36,750 Equity shares of Rs.100 each fully paid up	36.78	36.78
Bharti Agritech Private Limited		
9,800 Equity shares of Rs.100 each fully paid up	9.80	9.80
Modicare Limited		
7,20,000 Equity shares of Rs.10 each fully paid up	72.00	72.00
Sundaram Mutual Fund		
1,00,000 Units of Sundaram Growth Fund - Appreciation of Rs.10 each	10.00	10.00
38,49,081 Units of Sundaram Bond Saver - Appreciation of Rs.10 each	596.31	596.31
23,01,943 Units of Sundaram Bond Saver - Bonus (Bonus Units) of Rs.10 each	236.84	236.84
Franklin Templeton Mutual Fund		
7,68,420 (Previous year 6,97,819) Units of Templeton India Growth Fund - Dividend of Rs.10 each	103.45	86.00
25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each	353.50	353.50
20,00,000 Units of Templeton Monthly Income Plan-Half Yearly Dividend of Rs.10 each	198.18	198.18
35,84,037 Units of Templeton India Govt. Securities Fund - Growth Plan of Rs.10 each	597.23	597.23
Nil (Previous year 64,85,957) Units of Templeton India Income Builder Account - Institutional Plan of Rs.10 each	-	700.00
14,33,918 Units of Templeton India Income Builder Account Plan A - Growth of Rs.10 each	300.00	300.00
Prudential ICICI Mutual Fund		
103,08,923 Units of Prudential ICICI Income Plan- Growth of Rs.10 each	1455.72	1455.72
25,56,402 Units of Prudential ICICI Gilt Fund Investment Plan - Growth of Rs.10 each	398.12	398.74
45,38,687 Units of Prudential ICICI Flexible Income Plan - Growth of Rs.10 each	500.00	500.00
100,00,000 Units of Prudential ICICI FMP- Growth Yearly XII Institutional of Rs.10 each	1000.00	-
Birla Mutual Fund		
42,47,005 (Previous year 52,30,047) Units of Birla Income Plus Plan B - Growth of Rs.10 each	757.68	933.06

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments (Continued)		
14,12,030 Units of Birla Gilt Plus P F Plan		
- Growth of Rs.10 each	199.02	199.02
12,46,416 Units of Birla Gilt Plus Regular Plan		
- Growth of Rs.10 each	199.37	199.37
100,00,000 Units of Birla Fixed Term Plan Series A		
-Growth of Rs.10 each	1000.00	-
17,68,113 Units of Birla MIP Plan C - Growth of Rs.10 each	277.78	-
3,42,483 Units of Birla Cash Institutional Plan		
- Growth of Rs.10 each	60.00	-
Kotak Mahindra Mutual Fund		
21,54,634 Units of Kotak Gilt (Investment Regular)		
- Growth of Rs.10 each	362.87	362.87
27,52,305 Units of Kotak Bond Regular - Growth [Formerly Kotak Bond Unit Scheme 99 (Wholesale Plan) - Growth] of Rs.10 each	408.84	408.84
DSP Merrill Lynch Mutual Fund		
39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs.10 each	595.82	595.82
SBI Mutual Fund		
34,44,028 (Previous year 51,49,039) Units of Magnum Income Fund - Growth Plan of Rs.10 each	397.87	594.83
22,92,313 Units of Magnum Monthly Income Plan- Growth Option of Rs.10 each	316.21	-
Alliance Capital Mutual Fund		
24,86,877 (Previous year 22,76,007) Units of Alliance Monthly Income-Quarterly Dividend of Rs.10 each	282.26	259.48
Standard Chartered Mutual Fund		
136,53,406 Units of GSSG GSSIF - Investment Plan		
- Growth Option of Rs.10 each	1641.90	1641.90
150,00,000 Units of Grindlays Fixed Maturity 7th Plan - B - Growth of Rs.10 each	1500.00	-
HDFC Mutual Fund		
40,56,978 Units of HDFC Income Fund - Growth of Rs.10 each	471.19	471.19
16,58,375 Units of HDFC High Interest Fund - Growth Plan of Rs.10 each	254.87	254.87
7,88,280 Units of HDFC Cash Management Fund - Saving Plan - Weekly Dividend - Reinvestment of Rs. 10 each	83.82	-
Chola Mutual Fund		
5,88,235 Units of Chola Triple Ace - Regular - Cumulative of Rs.10 each	99.38	99.38
7,85,989 Units of Chola Triple Ace- Regular - Bonus- Bonus Units of Rs.10 each	88.89	88.89
HSBC Mutual Fund		
Nil (Previous year 50,00,000) Units of HSBC Institutional Income Fund - Investment Plan - Growth of Rs. 10 each	-	500.00
Principal Mutual Fund (Formerly IDBI Mutual Fund)		
14,01,384 Units of Principal Income Fund-Growth Plan of Rs.10 each	200.00	200.00
20,00,000 Units of Principal Deposit Fund (FMP-6)		
371 Days Plan Mar 05- Growth Rs.10 each	200.00	-

G O D F R E Y P H I L L I P S I N D I A L I M I T E D

Rupees in lacs

Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 5 - Investments (Continued)		
UTI Mutual Fund		
13,93,338 Units of UTI Bond Advantage Fund Growth Plan (Formerly IL&FS Bond Fund-Growth Plan) of Rs.10 each	205.54	205.54
50,00,000 Units of UTI Fixed Maturity Plan - (YFM P/02/05) Growth Plan of Rs.10 each	500.00	-
Deutsche Mutual Fund		
6,50,300 (Previous year 6,30,450) Units of Deutsche Insta Cash Plus Fund - Regular Dividend Plan of Rs.10 each	65.97	64.01
1,95,351 Units of Deutsche Short Maturity Fund - Growth Plan of Rs. 10 each	20.50	20.50
Nil (Previous year 1,61,184) Units of Deutsche Short Maturity Mutual Fund - Monthly Dividend Plan of Rs.10 each	-	16.49
50,00,000 Units of Deutsche Fixed Term Fund - Growth Option of Rs.10 each	500.00	-
Reliance Mutual Fund		
1,28,107 Units of Reliance Income Fund- Growth Plan of Rs. 10 each	25.00	25.00
14,11,423 Units of RMTF - Retail Plan -Growth Plan - Bonus Option of Rs. 10 each	142.86	-
50,00,000 Units of Reliance Fixed Maturity Fund - Annual Plan - Series 1- Growth option of Rs.10 each	500.00	-
50,000 Units of Reliance Equity Opportunities Fund -Growth of Rs. 10 each	5.00	-
Tata Mutual Fund		
60,252 Units of TIFG Tata Income Fund-Appreciation of Rs.10 each	12.50	12.50
50,00,000 Units of TATA Fixed Horizon Series 1- Plan A (371 days) - Growth of Rs.10 each	500.00	-
ING Vysya Mutual Fund		
19,69,066 Units of ING Vysya Select Debt Fund -Growth of Rs.10 each	200.00	-
Government Securities (lodged as security with Government Authorities)	0.36	0.36
b) CURRENT (At lower of cost and fair value)		
OTHER INVESTMENT - UNQUOTED		
Principal Mutual Fund		
1,37,90,424 Units of Principal Cash Management Fund Liquid Option Institutional Premium Plan -Growth of Rs.10 each	1420.00	-
	<u>19873.60</u>	<u>14260.28</u>
Aggregate amount of quoted investments	461.73	1508.45
Aggregate amount of unquoted investments:		
-Units of Mutual Funds	19244.49	12586.09
-Others	167.38	165.74
	<u>19411.87</u>	<u>12751.83</u>
Market value of quoted investments	627.45	1719.53
Net asset value/repurchase price of units of Mutual Funds	23166.11	16768.11

SCHEDULE 6 - Inventories

At cost or under:		
Stores and spare parts	619.85	549.99
At lower of cost and net realisable value:		
Raw and packing materials	8414.79	8091.55
Work-in-process	89.66	79.61
Finished goods - Cigarettes	2860.04	3219.85
- Cigars	56.76	46.12
Other goods	545.32	325.56
Real estate*	405.69	396.40
	<u>12992.11</u>	<u>12709.08</u>

*Includes land at revalued cost

SCHEDULE 7- Sundry debtors

CONSIDERED GOOD		
Over six months - unsecured	0.45	0.37
Others - secured	22.91	56.00
- unsecured	227.83	1203.76
CONSIDERED DOUBTFUL		
Over six months	104.58	105.12
	<u>355.77</u>	<u>1365.25</u>
Less: Provision for doubtful debts	104.58	105.12
	<u>251.19</u>	<u>1260.13</u>

SCHEDULE 8 - Cash and bank balances

Cash on hand	17.08	20.60
Cheques on hand	106.45	161.31
With scheduled banks : On current accounts	391.16	469.97
: On margin money accounts	31.57	118.06
: On fixed deposit accounts**	0.45	0.45
	<u>546.71</u>	<u>770.39</u>

** Lodged as security with Government Authorities

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Rupees in lacs

	As at 31.3.2005	As at 31.3.2004
SCHEDULE 9 - Loans and advances		
Unsecured, considered good, unless otherwise stated:		
Advances recoverable in cash or in kind or for value to be received*	1928.80	2065.50
Considered doubtful	2797.51	2334.96
	4726.31	4400.46
Less: Provision for doubtful advances	2797.51	2334.96
	1928.80	2065.50
Inter corporate deposits	1025.00	925.00
With excise and customs on current/cenvat accounts	1299.60	320.16
Income-tax recoverable	542.24	498.23
	4795.64	3808.89

* Includes:

- i) Rs.1.46 lacs (previous year Rs.0.06 lac) due from officer/directors of the Company.
Maximum amount due during the year Rs.1.46 lacs (previous year Rs.0.99 lac).
- ii) Rs. 0.09 lac (previous year Rs. Nil) due from Modipon Ltd., a company under the same management.
Maximum amount due during the year Rs.0.53 lac (previous year Rs.1.59 lacs).
- iii) Rs. 0.03 lac (previous year Rs. Nil) due from a private company in which some of the directors of the Company are directors.

SCHEDULE 10 - Current liabilities

Sundry creditors #		
Dues of small scale industrial undertakings	318.82	233.64
Dues of other than small scale industrial undertakings	12250.28	9856.99
Interest accrued but not due on loans, deposits and deferred credits	60.64	16.01
	12629.74	10106.64

Sundry creditors do not include any amounts outstanding as on March 31, 2005 which are required to be credited to the Investor Education and Protection Fund.

SCHEDULE 11 - Provisions

Proposed dividend	2287.73	1975.77
Corporate dividend tax	320.85	258.21
Taxation (net of payments)	726.87	406.07
Provision for encashable leave salary	1134.65	874.81
	4470.10	3514.86

SCHEDULE 12 - Deferred taxation

Deferred tax assets		
- Accrued expenses deductible on payment	1644.03	1305.86
- Voluntary retirement scheme	34.44	72.02
- Provision for doubtful debts/advances	976.84	875.38
	2655.31	2253.26
Deferred tax liabilities		
- Accelerated depreciation	1056.81	1009.89
- Capital gains	52.58	33.39
	1109.39	1043.28

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.3.2004
SCHEDULE 13 - Other income		
Rent and hire charges (gross)	98.77	163.64
Interest (gross) from debts, deposits, loans, etc.	123.34	221.31
Income (gross) from other long term investments:		
- Dividends	57.27	70.80
- Interest	58.29	137.09
Dividends from other current investments	-	116.21
Profit on redemption/sale of other long term investments	427.75	673.83
Profit on sale of other current investments	236.23	-
Profit on sale of fixed assets	-	92.22
Liabilities no longer required, written back	1014.52	-
Provision for diminution in the value of investments written back	-	0.51
Provision for doubtful debts and advances written back	-	6.61
Export incentives	185.03	501.04
Sundries	438.83	447.54
	2640.03	2430.80

Tax deducted at source:

Dividend from other long term investments	-	0.25
Interest income	25.45	23.10
Rent and hire charges	14.37	20.28
Sundries	1.00	0.96

SCHEDULE 14 - Raw and packing materials, manufactured and other goods

Raw and packing materials consumed	15807.95	15536.08
Purchases for resale (including transferred from raw and packing materials)	7571.98	5526.11
Expenditure incurred on real estate stock development	9.29	102.25
Decrease/(Increase) in work-in-process, finished goods and other goods		
Opening stock:		
- Work-in-process	79.61	58.83
- Cigarettes	3219.85	2440.27
- Cigars	46.12	17.65
- Other goods	325.56	449.52
- Real estate	396.40	294.15
	4067.54	3260.42
Closing stock:		
- Work-in-process	89.66	79.61
- Cigarettes	2860.04	3219.85
- Cigars	56.76	46.12
- Other goods	545.32	325.56
- Real estate	405.69	396.40
	3957.47	4067.54
	110.07	(807.12)
	23499.29	20357.32

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Rupees in lacs

SCHEDULE 15 - Manufacturing and other expenses

	For the year ended 31.3.2005	For the year ended 31.3.2004
Salaries, wages and bonus (Refer Note10)	5150.08	3962.47
Contribution to provident and other funds (including administrative charges)	330.29	292.16
Workmen and staff welfare expenses	594.73	534.99
Contribution to gratuity and superannuation fund	570.36	447.46
Consumption of stores and spare parts	40.17	45.28
Power and fuel	706.05	592.35
Repairs and maintenance - Buildings	200.58	124.81
- Machinery	507.54	363.32
- Others	219.04	191.75
Rent	516.23	558.03
Rates and taxes	6463.84	6260.39
Insurance	244.19	255.58
Freight and cartage	773.15	676.21
Legal and professional expenses	1394.82	2872.37
Auditors' remuneration	69.19	62.60
Interest - Fixed loans	42.83	66.09
- Others	533.49	490.61
Cash discount	45.82	41.87
Commission paid to other than sole selling agents	89.84	76.49
Advertising and sales promotion	9896.51	10746.16
Selling and distribution expenses	1765.62	1766.93
Travelling and conveyance	1430.29	1480.72
Donations	194.71	59.74
Bill discounting charges	-	11.91
Bad debts and advances written off	7.74	0.25
Provision for doubtful debts and advances	462.01	-
Fixed assets written off	36.19	118.32
Loss on sale of fixed assets	45.04	-
Technical services fee and royalty	639.83	665.45
Loss on sale of other current investments	-	4.01
Provision for diminution in the value of investments	0.45	-
Miscellaneous expenses	2582.29	2134.63
	35552.92	34902.95
(a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery	373.71	268.64
(b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc.	14.64	11.83

SCHEDULE 16 – Notes to the consolidated accounts

1. BASIS OF CONSOLIDATION

The Consolidated Financial Statements have been prepared in accordance with Accounting Standard 21 (AS 21)-" Consolidated Financial Statements" and Accounting Standard 23 (AS 23) – "Accounting for Investments in Associates in Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.

- a) The subsidiaries (which along with Godfrey Phillips India Limited, the Parent, constitute the Group) considered in the preparation of these consolidated financial statements are:

Name	Country of incorporation	Percentage of voting power as at	
		March 31, 2005	March 31, 2004
International Tobacco Company Limited	India	100	100
Chase Investments Limited	India	100	100
City Leasing and Finance Company Limited	India	100	100
Manhattan Credits and Finance Limited	India	100	100
Kashyap Metal and Allied Industries Limited	India	66.23*	66.23*
Unique Space Developers Limited	India	66.67*	66.67*
* Held through other subsidiaries			

- b) The Group's associate is:
Success Principles India Limited India 48.89 48.89

These Consolidated Financial Statements are based, in so far as they relate to amounts included in respect of subsidiaries and an associate, on the audited financial statements prepared for consolidation in accordance with the requirements of AS 21 and AS 23 by each of the aforesaid entities.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

i) Fixed assets and depreciation

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill, patents and trade marks and leasehold land is not amortised because, in view of the management, there is no diminution in their value.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:-

Items of machinery and equipment costing upto Rs. 5,000 each

Acquired upto December 16, 1993 95%

Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986 SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets.

ii) Investments

Long term investments, other than in associates, are stated at cost. Provision is made for permanent diminution in the value of long term investments, where applicable. Investment in the associate is accounted for using the equity method. Current investments are stated at cost or fair value, whichever is lower.

iii) Inventories

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials and stores and spares is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon.

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iv) Revenue recognition

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty and luxury tax, where applicable but are exclusive of sales tax.

Income from investments is recognised on an accrual basis.

v) Retirement benefits

The Group has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund duly recognised by the Income-tax authorities. The funds are administered through trustees and the contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

vii) Income-tax

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are recognised on unabsorbed depreciation and carry forward of losses based on virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

viii) Proposed dividends

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

ix) Research and development expenditure

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

x) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Current assets and current liabilities are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract and is taken to the profit and loss account. The exchange difference on such contracts i.e. difference between the exchange rate at the reporting / settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

xi) Investment subsidiaries

Income recognition, assets classification and provisioning are done in accordance with the prudential norms/ guidelines issued by the Reserve Bank of India from time to time for Non-Banking Financial Companies.

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.03.2004
3. REMUNERATION OF DIRECTORS		
Included in Schedule 15 are:		
Remuneration*	93.69	82.55
Commission	53.50	50.20
Sitting fees	10.46	4.05
	<u>157.65</u>	<u>136.80</u>

*excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

Rupees in lacs

	For the year ended 31.3.2005	For the year ended 31.03.2004
4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT		
Revenue expenditure	195.59	154.40
Capital expenditure	107.39	39.94
5. AUDITORS' REMUNERATION*		
As auditors		
Audit fee	27.49	26.71
Out of pocket expenses	2.55	2.97
In other capacity		
For limited review of unaudited financial results	20.01	17.82
For corporate governance, consolidated financial statements and other certification work	2.15	2.30
For tax audit	6.15	6.19
For management consultancy	5.89	1.62
For provident fund audit	1.01	0.81
For miscellaneous certificates	3.87	4.18
Out of pocket expenses	0.07	-
	<u>69.19</u>	<u>62.60</u>

*Current year figures are net of service tax of Rs. 5.19 lacs for which the input tax credit is available.

	As at 31.3.2005	As at 31.03.2004
6. CONTINGENT LIABILITIES NOT PROVIDED FOR		
a) Demands from excise, sales tax, income-tax and other authorities disputed by the Group	294.27	251.37
b) Cash security deposited on behalf of third parties in respect of excise duty	-	28.81
c) Guarantees given to a bank on behalf of third parties in respect of excise duty	-	98.01
d) Claims against the Group not acknowledged as debts	3.26	3.26
7. The Group and its contract manufacturer have received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Group does not consider these to constitute a liability of any kind.		
8. The Group has taken on lease plant and machinery, motor vehicles and office equipments of an aggregate cost of Rs. 212.21 lacs (previous year Rs.436.72 lacs) with future obligations by way of lease rentals amounting to Rs.4.33 lacs (previous year Rs.28.15 lacs). Lease rentals charged to the profit and loss account during the year is Rs.23.55 lacs (previous year Rs.57.84 lacs). The Group has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15. The Group has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges in respect thereof have been accrued as income in Schedule 13.		
9. Exchange loss included in the profit and loss account for the year is Rs.19.28 lacs (previous year Rs.47.00 lacs).		
10. Salaries and wages include payments under voluntary retirement schemes aggregating Rs. Nil (previous year Rs.55.61 lacs).		

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11. During the year, in view of revised Accounting Standard (AS) 11 "The Effects of Changes in Foreign Exchange Rates (Revised 2003)" issued by the Institute of Chartered Accountants of India, the Group has recognised the exchange differences attributable to liability incurred during the year in relation to fixed assets acquired within India, in the profit and loss account. As a result of this change, profit before tax for the year and gross block of fixed assets as at the year end are higher by Rs.56.38 lacs.

	For the year ended 31.3.2005	For the year ended 31.03.2004
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12. Earnings per share has been computed as under:

a) Net profit as per consolidated profit and loss account (Rs.lacs)	6515.39	5339.33
b) Weighted average number of equity shares outstanding	1,03,98,784	1,03,98,784
c) Basic and diluted earnings per share (Rupees) (face value of share-Rs.10 each)	62.66	51.35

13. Related party disclosures under Accounting Standard 18

(A) Names of related parties and nature of related party relationships:

(a) Associates:

Philip Morris International Finance Corporation, of which Godfrey Phillips India Limited is an associate.

(b) Key management personnel:

Mr. K.K.Modi	President and Managing Director
Mr. Lalit Kumar Modi	Executive Director
Mr. Samir Kumar Modi	Executive Director
Mr. S.V.Shanbhag	Whole-time Director

(c) Enterprises over which key management personnel and their relatives are able to exercise significant influence:

Modi Entertainment Limited
Modicare Limited
Modern Homecare Products Limited
K.K.Modi Investment & Financial Services Private Limited
Beacon Travels Private Limited
Modipon Limited
Assam Cigarette Company Private Limited
R.C. Tobacco Private Limited
HMA Udyog Private Limited
Kaushambi Investment & Leasing Company Private Limited
Bina Fashion N Food Private Limited
Modicare Foundation
Modi Apollo International Group Private Limited
Integrated Technology Solutions Private Limited
Priyal Hitay Nidhi
Colorbar Cosmetics Private Limited
Modi Innovative Education Society
Gujarmal Modi Science Foundation
ME Fashion India Private Limited

(B) Disclosure of transactions between the Group and related parties and the status of outstanding balances as at the year end:

Rupees in lacs

Nature of transactions	Associate		Key management personnel		Enterprises over which significant influence exists	
	2005	2004	2005	2004	2005	2004
Sale of goods	-	-	-	-	38.92	103.79
Purchase of goods/services	-	-	-	-	424.39#	562.60#
Purchase of fixed assets	-	-	-	-	1.48	0.71
Deposits received back	-	-	-	-	90.00	-
Deposits refunded	-	-	-	-	2.82	-
Interest income	-	-	-	-	4.87	8.30
Rent and hire charges received	-	-	0.06	0.13	76.14	161.36
Rent and hire charges paid	-	-	-	-	21.53	25.58
Advertisement charges paid	-	-	-	-	-	116.37
Payments for employees on deputation	-	-	-	-	64.84	63.29
Receipts for employees on deputation	-	-	-	-	13.56	-
Donations given	-	-	-	-	111.25	21.00
Expenses recovered	-	-	0.53	0.53	6.88	11.27
Expenses reimbursed	-	-	-	-	7.86	0.57
Dividend payment	709.97	635.24	-	-	-	-
Managerial remuneration **	-	-	147.19	132.75	-	-
Amounts written back	-	-	-	-	462.55	-
Provision for doubtful advances	-	-	-	-	462.55	-
Balance outstanding as at the year end						
- Loans and advances	-	-	1.40	0.06	2769.73*	2452.50*
- Sundry creditors	-	-	2.83	-	10.73	44.24
- Guarantees/undertakings given to banks	-	-	-	-	-	98.01

* includes Rs. 2732.64 lacs (previous year Rs.2270.09 lacs) provided for as doubtful advances.

** excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

includes Rs.391.96 lacs (previous year Rs.541.39 lacs) from Beacon Travels Private Ltd.

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14. Segment reporting disclosures under Accounting Standard 17

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Group's primary business segments are (a) Cigarette and tobacco products; (b) Tea and related products and (c) Others (investment and real estate business activities of the subsidiaries).

(B) Geographical segments:

Since the Group's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

Financial information about the primary business segments is presented in the table below:

Rupees in lacs

	Cigarette and tobacco products	Tea and related products	Others	Total	Cigarette tobacco and products	Tea and related products	Others	Total
	For the year ended March 31, 2005				For the year ended March 31, 2004			
1. Segment revenue								
- External sales (gross)	125296.72	4233.66	-	129530.38	114184.63	3356.92	-	117541.55
- Less: Excise duty	61274.16	-	-	61274.16	55187.50	-	-	55187.50
- Net sales	64022.56	4233.66	-	68256.22	58997.13	3356.92	-	62354.05
- Other income	1673.92	62.16	84.38	1820.46	1183.97	28.02	149.29	1361.28
- Total	65696.48	4295.82	84.38	70076.68	60181.10	3384.94	149.29	63715.33
- Unallocable income				819.57				1069.52
Total revenue				70896.25				64784.85
2. Segment result	9716.16	(104.39)	77.39	9689.16	7259.72	(443.92)	143.19	6958.99
- Unallocable income net of unallocable expenses				609.86				993.76
Profit before interest and taxation				10299.02				7952.75
- Interest expenses and bill discounting charges				(58.10)				(188.43)
- Provision for income-tax				(3727.61)				(2427.31)
Profit after taxation before share of results of an associate and minority interests				6513.31				5337.01
Share of net profit of an associate				1.64				1.51
Profit after taxation before minority interests				6514.95				5338.52
	As at March 31, 2005				As at March 31, 2004			
3. Other information								
a) Segment assets	30138.20	1264.07	1719.60	33121.87	24849.97	1119.18	1519.14	27488.29
- Unallocable assets/ investments				23502.20				17543.05
Total assets				56624.07				45031.34
b) Segment liabilities	13357.02	212.61	16.92	13586.55	10482.75	358.57	12.44	10853.76
- Share capital, reserves and minority interests				33300.63				29394.26
- Unallocable liabilities				9736.89				4783.32
Total liabilities				56624.07				45031.34
	For the year ended March 31, 2005				For the year ended March 31, 2004			
c) Capital expenditure including capital work in progress	7421.88	45.45	86.05	7553.38	2552.20	353.26	74.50	2979.96
d) Depreciation	1800.08	55.69	0.11	1855.88	1129.88	48.96	0.13	1178.97
e) Non cash expenditure other than depreciation	709.02	12.83	-	721.85	160.58	10.38	-	170.96

Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 2 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expense only include items directly attributable to the segment. They do not include income from or loss on investments (other than relating to the business activity of the investment subsidiaries), interest income from inter-corporate deposits and loans given, interest expense (excluding those relating to segments) and bill discounting charges, donations and provision for taxation (both current and deferred). Since the corporate office of the Parent Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments (other than those held by the investment subsidiaries), inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (both current and deferred).

15. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

L.K. MODI Executive Director	SAMIR KUMAR MODI Executive Director	R.A. SHAH Chairman	Directors
S.V. SHANBHAG Whole-time Director	S. SERU Chief Executive (Domestic)	K.K. MODI President	
R.N. AGARWAL Ex. Vice President (Finance)	A.R. ANAND Chief Executive (International)	LALIT BHASIN O.P. VAISH ANUP N. KOTHARI	
R. JOSHI Company Secretary			



GODFREY PHILLIPS

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